CREDIT
ND FINANCIAL MANAGEMENT

APRIL 1946

Bailment Contracts

Banks As Credit Sources

A Blueprint For Management

Inventory Items On Balance Sheets

Tax Effects On Business

Back To Basic Production *International News Photos*

CREDIT
AND FINANCIAL MANAGEMENT

Contents

APRIL 1946

VOLUME 48, NO. 4

Official Publication of National Association of Credit Men

Chestnut at 56th St.,
Philadelphia 39, Pa.

One Park Avenue,
New York 16, N. Y.

Editor and Manager
Richard G. Tobin

Associate Editor
Leslie E. Jones

Advertising Representatives
Carl A. Larson
and Associates
254 West 31st St.
New York, 1, N.Y.
Telephone PEnn 6-9049

ESTABLISHED 1898

Wanted: A Will to Work (Editorial) ...... Henry H. Heimann 2

Banks As Credit Sources .... Thomas OMalley 4

Tax Effects on Business .... Joseph J. Klein 7

Inventory in the Balance Sheet .... Robert T. Allen 10

Blueprinting Business Planning .... Paul M. Millians 13

Bailment or Lease Contracts .... Carl B. Everberg 15

Banking as a Business Aid .... Frank Jerome 22

Bankruptcy Lull Only Temporary 24

Letters to the Editor 28

Credit News 33

Published on the first of each month by the National Association of Credit Men, Chestnut at 56th Street, Philadelphia 39, Pennsylvania. Entered as second class matter December 22, 1933, at the Post Office at Philadelphia, Pa., under the Act of March 3, 1879. Subscription price $3.00 per year, 25¢ per copy; Canada, $3.50; all other countries, $4.00 postpaid.

WANTED: A WILL TO WORK

There is an adage about selling that if you ring enough door bells you are bound to get some orders. This is another way of saying that industry usually brings its own reward.

This nation was built through intensive industry. Our form of government gave us every incentive to do this building. Our pioneers were determined, aggressive and persevering.

Perhaps one of the most dangerous economic evils resulting from this war and our recent domestic misunderstandings is the liquidation of this basic desire for industry. We frequently hear the expression: "Oh, what's the use?" "We are beset with so many regulations" or "The tax takes all of our earnings" or "Our present laws prevent us from passing our earnings along to make life a little less difficult for the future generations." This is not a healthy spirit.

These expressions unfortunately come from men in the prime of their lives. They are the men, who have reached a productive age coupled with a balanced judgment, whose efforts in the past have meant so much to our progress.

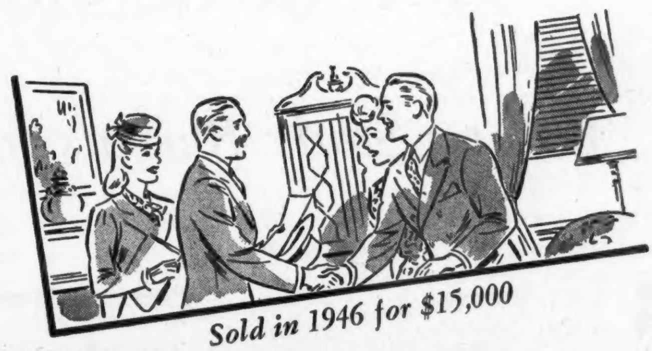
Perhaps we need a national revival of the desire to do things. And above all, we need a reappraisal of our laws and regulations that will once again enable us to recapture the pride of industry and, equally important, the pride of workmanship. We need an incentive to do our best work.

Henry H. Heimann

Henry H. Heimann
Executive Manager

The Story of a Home...

Built in 1939 for $10,000



Sold in 1946 for $15,000

Picture this home—built in 1939 for $10,000, and *fully insured* against fire. The owner paid his premiums promptly, his insurance agent faithfully kept the policy in force. Yet *somebody failed,* for the owner suffered a 50% loss when this home was destroyed by fire recently!

Why?

Under soaring property values, many an owner has outgrown insurance coverage that hasn't kept pace with increasing replacement costs. When fire strikes, his insurance offers only partial protection.

The same loss pattern is intensified when a co-insurance clause is in effect and valuation is set too low—the actual loss increases as values increase.

That's unfortunate—bad for the insured *and* the insurance agent.

Alert Home Insurance producers, therefore, are awakening policyholders to the situation, urging re-appraisal of values. Backing them up, The Home Insurance Company is doing everything possible to show the need for added insurance to cover today's increased values.

☆ THE HOME ☆

Insurance Company

NEW YORK

FIRE • AUTOMOBILE • MARINE

BANKS AS CREDIT SOURCES

What a Study Reveals for Mercantile Credit Men

By THOMAS OMALLEY
Accountant and Writer on Business Problems

Banks are regarded as an excellent source of credit information. The possession of a bank account is fundamental to doing business and banks have high credit standards so that, by their identification and opinion of accounts, they are influential in the dispensation of credit. In general, this favorable attitude on the part of mercantile credit men towards bank credit information is a proper view. However, it is rarely that the seeker of credit has no bank account; and a creditor may choose to meet bank standards of credit out of essential expediency but fail to meet his mercantile credit obligations promptly.

The prestige of banks, therefore, should not tend to persuade too strongly the mercantile credit man in his appraisals. So much for truisms. A study of about four hundred credit inquiries courteously answered by banks during two periods, 1941 and 1945, indicates that it might be advisable for credit men to read responses which they receive from banks with certain considerations, as revealed by these data, in mind. These considerations deal with the validity of antecedent history, however recent, under changing conditions and the inadequacy and ambiguity of many responses to credit inquiries. This study has specific application to the cyclical phase we are now entered upon, besides marking out general considerations in estimating the weight of requested comments by banks on the credit standing of credit seekers.

It seems that the major factor effecting the amount and kind of information which is given out by banks in response to inquiries is business conditions. First of all, banks are not always in possession of information to divulge on every account. Aside from the few instances where banks did have information but declined to yield it on the grounds that it was too confidential, any lack of information on the part of banks is usually the result of their accounts being nonborrowers. Then credit files of the banks contain no information on the accounts which they would were the accounts borrowers.

Replies Compared

A study of 182 replies from banks during 1941 shows that as many as 85 of these replies had no information to give beyond acknowledging the existence of the accounts. But in 1945, out of 204 answers, only 15 of them had no information to pass along. That is, 47 per cent of the 1941 replies contained no information, while only 7 per cent of the 1945 replies had no information. Both samples are considered representative for their periods. They were drawn from industrial accounts in about 19 states. Moreover, the 1945 sample is heavier and if it is biased, for comparing with the 1941 sample, the smaller percentage shown would tend, according to statistical reliability formulae, to be even smaller.

The comparison, moreover, seems confirmed by what we know to be the relative condition of the economic activity of the periods represented by those two years. Industrial firms were operating under an accelerated war boom after 1941. They were making money; depositing it; and borrowing to provide working capital for continuously expanding needs. This widespread borrowing was possible by reason of a remarkable quantity of commitments backed by the credit of the government and the unified feelings of the times.

Banks, therefore, observed in those war years that their accounts were unusually active; that deposits were large; and that their increased investigations arising out of loan applications were favorable. In fine, banks were able to build up credit information files on their depositors and this information became available to mercantile credit men for the asking.

Yet, during the war years, the ledger experience of many businesses, including giant industrial firms, was poor. Favoritism, and past due payments running scandalously long, were matters of course. It was the opinion of many sellers that more than red tape and overexpansion resulting in reductions in working capital was the cause of this situation. They suspected that it was a deliberate policy; a hedging against the inevitable day when contract cancellations and renegotiations would ensue. So, many firms which had products much in demand were actually granting cash terms only. The writer recalls one situation which was almost comical. A highly rated firm which could buy and sell a certain manufacturer several hundred times over sent its truckman over to pick up a special machine. The truckman brought no money. The manufacturer refused to deliver. The truckman went

away and returned in a few hours with a check and a letter of apology from the account. The seller argued he knew what he was doing. He was not going to wait six months for payment and then take a chance on collecting the full amount without slick claims for adjustment.

Still, loans made by banks in that period were promptly paid for obvious reasons. So, depending on the times, a bank's opinion of its customers may not be wholly satisfactory from a mercantile credit viewpoint.

War Boom and Peace Prosperity

A war boom, then, differs from a period of peaceful prosperity. The end of the upswing in war time can be sought for in the headlines of battles. There is no gradual letdown. It is abrupt. On the other hand, a peace period of prosperity is harder to forecast as to its duration. The petering out is slow and it is difficult to realize what point has been reached until the comeback is again on its way; or the decline has gone deeply as is the case with a great depression. But there is no appreciable difference in the experience of banks in these two types of prosperous periods. In each there is great banking activity, deposits are being made and borrowings are common. Bank credit files are built up in each, but the reports should be differently interpreted according to the period involved and the subsequent period.

When it is realized that the cyclical crisis has been reached at the end of a peace time boom, the expected depression to follow causes credit men to scrutinize more closely the information offered on an account. The antecedent history will be seen to be favorable. But this is history and times will have changed for the worse so that a creditor's condition may also change, at least partially. Yet, no depression threatens after a war time boom, at least in the United States. On the contrary, a tremendous period of prosperity is in sight. So the war is now over. Reconversion, handicapped by strikes which are destroying utility every day, is under way. Competition is expected to be deadly. There is expected to be a regular free-for-all among firms making not only their regular lines but new lines, and lines in competition with companies which had these for regular products. It is then to be expected that in the struggle there will be many failures in this turbulent period. Yet, some of these who will fail stand at the present, so far as their bank credit files indicate, in a very favorable credit condition. But this, it should be remembered, is because of their record of easy prosperity during the war period.

From now on, therefore, revision of credit files will be as much in order as when peace peak times have been reached. It would be well when writing to banks to ask for the dates of the antecedent history of accounts. This request should be in order because one of the complaints which bank credit men have to make against mercantile credit men is that they are not specific in their inquiries and, accordingly, can only be sent generalized answers which are the subject of grumbling about lack of cooperative spirit among the brotherhood. A review of the data which was used for this paper confirms this need for being specific. Some banks volunteer certain kinds of information; others make no mention of it. If the query is detailed the probability of its being answered in detail is good.

Revise Credit Files Now

It has been pointed out that the antecedent history of a bank's credit files should be reviewed with the cyclical phase presently in view in mind. Where there has been a change of conditions the available credit information may have lost its validity for the new period. For it may indicate that credit should be granted when the change of conditions to come does not really warrant it. Similarly, in a period antedating a prosperity period the lack of credit information on the part of many banks may result in a tendency to withhold credit; or to grant it sparingly when conditions are actually changing for the better and commitments are in view which would make for good credit risks.

Mention has been made about being specific in inquiries in order to elicit better information. But there is no guarantee that this procedure will work generally in practice. The American Institute of Banking has counseled banks to be more explicit in their replies and to avoid generalizations when specific information is available. Still, bank credit men do ignore this advice to a large extent and continue to express account balances in such terms as "The average balance is in *n*-figures." Or, the account is "satisfactory"; or in "good proportions." Only one bank, a city bank, actually quoted real round figures. What a surprise!

Bank Reports Ambiguous

The term "satisfactory" as used by bank credit men in their answers is not only general, it is relative. It was used to characterize a three-figure account and a six-figure account. One could interpret the condition with respect to a three-figure account that a minimum checking balance exists; a situation already understood. Also what is satisfactory: the credit of the subject or the routine state of its deposit account with the bank? The unfavorable term *unsatisfactory* was never used. This happy situation might be the status of all the accounts so far as the direct experience of the various banks is concerned. If such a condition really prevails, then the word *satisfactory* losses its meaning by reason of being superfluous. It has been argued that creditors have different reasons for maintaining credit relations with banks as against mercantile firms. The bank is stricter in its collection demands. Still, there might actually be accounts somewhere among the banks which are really not satisfactory. One could never know this because the failure to mention such cases leaves the credit man in doubt whether silence is to be construed as meaning that the account is satisfactory or that, tacitly, it is not. Evaluating terms should not be used unless they are used in every answer and omitted from none. Then a credit man could discover whether ideal relations between banks and their accounts did, or did not, prevail.

It is interesting to observe that when an *n*-figure phrase was used in hinting at an account's bank balance, it was invariably modified by the word "low" or the word "moderate"; never, but once or twice, by the term *high*. Thus, "The account has a low five-figure average balance." Of course, to take the curse off the mental impact of glancing at diminutive modifiers, this could be read as better than a high four-figure balance. It seems, for some reason which is probably tied up with the relatively small category range of the decimal system, that liquid balances of bank accounts when they approach a high category tend to slop over into the next higher bracket, making them low $(n+1)$ —figures. We are then faced with an interesting aspect of mathematics as revealed by statistics; but while information given in general terms may provide the reader with the pleasures of pythagorean speculation that is no help in matters of credit.

Credit Depends on Character

During the war period there was an increase in the number of credit references. There were 40 references in the 204 replies examined in 1945. Still, such a number seems much smaller than it need be. Character often is the chief factor in extending credit. In both years studied, and as a regular routine, banks seem reticent in this respect. The majority of the responses lack the positive recommendations which 20 per cent of the 1945 letters contained: that credit ought to be extended by reason of the subject's character. It has been said that silence on the part of bank credit men might be an easy evasion; that banks seem to be working on a paraphrased principle of the ancients, *De moribus nil nisi bonum:* Say nothing about your creditors unless it be favorable. This has been denied. Still, the argument—to persuade candidness among mercantile and bank credit men—that reciprocity is mutually beneficial does not seem to carry weight. It would seem that the argument is a bit weak and that banks feel that they benefit less in the exchange of information than do mercantile credit men so that the banking fraternity would be justified in their guarded phrases and discreet omissions. Certainly, the bank credit departments seem to give a much greater volume of service than they receive; for which they should be gratefully thanked.

With respect to the veracity of financial declarations made by credit seekers, the data for 1941 show that in 17 out of 182 cases the informing banks contradicted their accounts. In 1945 there were 11 such cases in 204 samples. This indicates that a certain amount of references are made boldly which are not borne out upon investigation as being favorable. The quantity of puffs in the war year was less than in the peace year but it does indicate that there is little difference in either situation to change this type of high credit seeker.

It is interesting to observe that in 1945 the correspondent banks had more confidence in four accounts than the accounts had in themselves. These banks considered their accounts in better financial condition than represented. This modesty on one side and optimism on the other in inverse positions is a matter of speculation. One bank gives a hint. Their account was coming along fast and heading towards higher brackets. That was during the war. And that's now over. Also two of the bank references given were spurious.

Standard Information

It would seem in order for banks through the American Institute of Banking to draw up a standard information form to be used in replying to inquiries for credit information. The chief purpose of this form would be to give a check list of all pertinent topics to be answered by all banks, *explicitly*. As it is now, some banks are explicit as to their responses while others are merely implicit.

Among 204 replies for 1945 containing 288 subject comments, the implicit (and, therefore, ambiguous) remarks outnumbered the explicit (unequivocal) comments. With respect to the most important kind of information which could be given to the credit man, viz., whether the account is a borrower of bank loans, only 10 comments explicitly declared the accounts had made loans, while 79 comments only implied this (Table I).

Similarly, 25 comments declared that subjects had not borrowed, while 47 comments implied that status (Table II).

This indirection may be considered politic on the part of those banks which answer in that fashion, but they might realize that other banks are quite frank in discussing legitimate credit inquiries. As credit men themselves they might realize there is more to a credit man's job than looking for a lack of information to justify refusing credit to their accounts. A credit man's main job is to extend credit, not to withhold it. He is chiefly interested in finding good credit risks and in extending an optimum credit line to them. Unless a good credit risk is properly represented by full discussion, it may appear to be less favorable than it is. And if the banking firms would adopt a standard credit reply form they would all stand together and feel free to discuss legitimate inquiries frankly as a standard and accepted policy of commercial activity. This would be of benefit to themselves through the prosperity of their accounts.

Credit Men Need Facts

Figure 1 is such a suggested check list. It is possible that this example is incomplete itself but at least the point is made that the check list should be designed and used.

If this standard check list were to be used—it contains nothing new. It merely seeks to be all-inclusive; to act as a reminder to be explicit on each item—the recipient would be able to make better use of bank credit information. For example, if item 2 and item 3 were checked *NO* in each instance and item 5 was made out to read as a favorable character reference, the credit man might consider the value of item 5 more dubiously than if items 1 and 3 were checked *YES*. In the former instance the character reference might be gratuitous, mere kindly opinion. In the latter case there would be indicated definite financial reasons for the character

(*Continued on page* 30)

HOW TAXES MAY AFFECT BUSINESS

Features of Federal Law That May Hit Profits

By DR. JOSEPH J. KLEIN

Senior Member

KLEIN, HINDS & FINKE, CPA's
New York

Ideologically and directionally, there are taxes to the *left* and taxes to the *right* of us. We cannot escape them in life and they await us at death. Whether working for wages or salary, pursuing trade or business, or indulging in recreation or pleasure, taxes are ever present.

The history of taxation throughout the ages discloses both discrimination and favoritism. In our own day and in our own country, history repeats itself. Both tax discrimination and tax favoritism have their effect on business. While present-day discrimination and favoritism are not exactly similar to those which prevailed in ancient days, the ultimate purpose and effect are quite identical.

Discrimination and Favoritism

Perhaps the most striking example of discriminatory federal taxation is found in what has been referred to as the "Field" amendment, which provides for recalculation of tax liability if certain business losses exceed $50,000 for five consecutive years, disallowing the excess over $50,000 and extending the statute of limitations so as to permit redetermination. And perhaps the clearest example of federal tax favoritism — one to which no one objects—is found in the provision which frees from the 15% limitation on charitable contribution deductions individuals who, during the taxable year and for the ten preceding years, made statutory charitable contributions exceeding 90% of their net income for such years. An equally obvious instance of favoritism is found in the (probably constitutionally necessary) federal tax exemption of interest on obligations of states and political subdivisions thereof.

Hoarding and Hold-back Sales

Other favoritism is found in the federal taxation of income from oil and gas sources and from certain other extractive industry and mining operations. Aside from the question of whether such favoritism is socially and economically wise or fair, it is manifest that the tax effect is to encourage investment in the favored enterprises.

If a cent or two per pound for cotton and if a few cents per bushel for wheat or corn can convert buyers into sellers and *vice versa*, how much more positive is the effect on business of the prevailing high tax levies. It is no strange phenomenon that a threatened impost of a sales tax or an increase in the rate will drive buyers into the market and create a nation of hoarders; nor that purchases are postponed when sales tax termination or reduction is expected. So it is not surprising that buyers, who could not obtain needed merchandise toward the end of 1945, accused sources of supply of deliberately refusing to deliver goods, the profit on the sale of which would be subject to a levy of 85½%, when by postponing such sales until 1946 the tax would be 38%.

Among the more obvious and easily recognized effects of taxation on business are the New York City sales tax, which may cause commuters to have their purchases delivered instead of taking them themselves; New York taxes on gasoline and cigarettes which may drive business to neighboring states; New York stock transfer stamps which may cause stock deliveries to be made in New Jersey; New York income taxes which may induce change of domicile by persons whose income includes dividends, interest and security profits; the local laws in eight "community property" states which may entice married couples, because annual income is equally divisible between spouses for income tax purposes (if the husband's earnings amount to $100,000 and the wife has no income, the "family" tax saving amounts to about $14,000!). Even when the taxing measure has a "social objective," rather than adherence to its primary-revenue-raising purpose, it may affect business: as, for example, the 10¢ per pound tax on yellow oleomargarine, the 1919 tax of 10% of net income of "child labor" employers (held unconstitutional), and tariffs intended to "protect" American labor.

Another aspect of the business effect of taxes is found in the influence of high rates on industrial effort, economic ambition and risk taking. Even at reduced 1946 rates, federal taxes take one-fourth of net income of individuals above $5,000 per annum, one-half above $18,000, about three-fifths above $25,000, about three-fourths above $60,000, and all but about 15% above $100,000. With so large a share of earnings claimed by federal taxes, no wonder that the law of diminishing returns operates. "Why slave when Uncle Sam takes all we make?"

An address before the NY Credit Women's Group, 5 March 1946.

With 1945 total corporate federal tax rates at 85½%, the normal incentive to careful husbanding was obviously lacking, and management became notoriously lacking in "expense consciousness." The 1946 reduction in the corporate rate to 38% should tend to restore business normalcy.

A word about a misnomer, the "incentive" tax: It is essentially a tax reduction device as, for example, the New York State merit rating against the 2.7% unemployment insurance levy; the various proposals to permit accelerated machinery depreciation allowances in order to aid the heavy machinery industry during the post-war period, the war emergency facility amortization which permitted rapid write-off of land, buildings and equipment procured for certain war production purposes. The effect of such devices is to induce desired business conduct or to achieve an economic goal deemed desirable.

Capital Gain and Loss

The fact that long-term capital gains are subject to an optional flat 25% tax, while net long-term capital losses are limited to $1,000 (with a five-year carry-over provision) has been observed as encouraging profitable sales and discouraging loss sales, thus artificially and harmfully interfering with security trading. In the case of corporate taxpayers, even the $1,000 net loss is not an allowable deduction.

Corporations may deduct as a loss, both for income and excess profits tax purposes, the entire loss suffered from the sale of real estate, machinery and equipment used in the trade or business. Such sales, in 1945, could have resulted in a reduction of taxes by 85½% of the amount of the loss, even if the sold property continued to be occupied by the vendor as a tenant. The potential effect of such a tax provision is obvious. One reported instance of a sale to an exempt corporation is said to have resulted in tax reduction to the corporate seller of millions of dollars, and while the annual rental will be deductible by the vendor-lessee, the new vendee-lessor will not be subject to tax on such rent.

In the presence of prohibitively high individual income taxes, the possibility of converting ordinary income into capital gain has proved irresistibly attractive in many situations. A profitable sale of the capital stock in a close corporation may leave the vendor a net balance, after payment of the capital gain tax, equivalent to what the vender could have retained after enjoying the fruits of thirty or even forty years of very profitable business. Such sales have sometimes resulted in "putting on the shelf" comparatively young executives who, but for the effect of taxes, might have remained in harness for many more years.

Drive to Speculation

In view of the fact that, under existing high tax rates on ordinary income, it is practically impossible to save enough to create a competence and leave any substantial estate to one's dependents, stock market speculation has undoubtedly been encouraged, because in this field (and in a few others) a relatively fair share of gains—*if* realized—can still be retained. It is too early to judge the net economic effect of a system of taxation which lures away from what is, or used to be regarded as, normal business and into stock market activities.

Effects of Carry-Back and Carry-Over

The statute provides a two-year carry-back and carry-over of net operating losses. Consider the following operating results of a selected corporation:

	Net Income	Income and Excess Profits Tax Before Application of Carry-Back and Carry-Over
1942	$100,000	$70,000
1943	150,000	110,000
1944	(400,000)*	......
1945	100,000	68,000
1946	90,000	34,200†

* Net loss. † Income tax only.

By operation of the carry-back, the 1942 net income is extinguished, resulting in a refund of the taxes paid for that year ($70,000); the 1943 net income is extinguished, resulting in a refund of the taxes paid for that year ($110,000); the 1945 net income is extinguished, cancelling the tax liability of $68,000 for that year; there is still a balance of the 1944 net loss, $50,000, which can be utilized in the reduction of the 1946 net income from $90,000 to $40,000, resulting in a tax saving of $20,500.

The excess profits tax is based on the amount of net income in excess of statutory normal pre-war earning power. The amount exempt from the excess profits tax is known as the "excess profits credit." Corresponding to the two-year carry-back and carry-over of the net operating loss, there are similar provisions with respect to the "unused" excess profits credit, that is, the portion of the credit which exceeds the excess profits net income of a given year. While the excess profits tax has been terminated as at the end of 1945, the excess profits credit for 1946 is nevertheless calculated (as though the law were still in effect), and if such credit is greater than (what would have been) the excess profits net income, the "unused" portion may be carried back to the years 1944 and 1945, but it may no longer be carried forward.

If a net loss is incurred, the carry-back and carry-over may result in refunds and reductions of both income and excess profits taxes; if there is a "break-even" or if the net income is less than the excess profits credit, recovery and reduction may be of excess profits tax only.

Alleged Deliberate Strike Prolongation

Reckless and misleading charges have been made during the heat of recent strikes. It has been repeatedly alleged that employers are purposely prolonging strikes because they make more by shutting up shop than by operating. Some irresponsible person declared, "The more they lose, the more they make." Stuff and nonsense! No one makes money by not producing. Here are the facts regarding the effect of federal taxes on 1946 corporate earnings:

(1) For *every* dollar of net income earned, the corporate employer retains, after federal taxes, at least 62 cents. How can one assert, therefore, that it doesn't pay to earn!

(2) If 1946 operations result in a "break-even" figure, some corporations, including at least one of the automobile concerns, is entitled to a refund of 45½ cents for each dollar of its unused excess profits credit, but at least one of the steel corporations would secure no tax refund at all.

(3) Finally, if 1946 operations result in a net loss, some corporations, including at least the same automobile concern, would offset each dollar of such loss by a refund of 85½ cents, and other corporations, including at least the same steel company, by 40 cents. While 1946 net losses may be *reduced* by refunds based on prior payments of excess profits and income taxes, it is error to assert that "it pays to lose money."

The carry-back and carry-over provisions are in the nature of "shock absorbers" for reconversion and post-war losses; the provisions were openly and purposely designed to function exactly as they do; the provisions were the result of a compromise "openly arrived at" between those who pleaded for post-war reserves during the war years and those who opposed such reserves on the ground that reconversion and post-war costs and losses should not be guessed at but deducted by carry-backs and carry-overs when definitely realized and determined. There is no valid ground for criticism of the provisions insofar as they relate to most taxpayers. It is economic heresy to proclaim that the federal tax statute "makes losses profitable"—it is still true that the only way to make a profit is to operate profitably.

The carry-back and carry-over provisions have business effects entirely unassociated with strikes. Corporations which would ordinarily be dissolved because their activities had been concluded (as in the case of especially organized "war babies") may remain in existence in order to recoup all or part of excess profits taxes previously paid, because of the carry-back provision relating to unused excess profits credits; income taxes previously paid are, likewise, subject to recovery. This "loophole" is said to be under official scrutiny.

Uncle Sam's Payroll

Federal personnel inside continental United States employed by executive agencies during February 1946, and comparison with January

Departments or Agencies	January 1946	February 1946	Increase	Decrease
Executive Office of the President				
Bureau of the Budget	752	757	5	
Executive Departments				
Agriculture Department	85,512	86,000	488	
Commerce Department	30,452	[1]31,955	1,503	
Interior Department	39,831	40,456	625	
Justice Department	25,017	25,015		2
Labor Department	33,533	34,081	548	
Post Office Department	452,271	462,150	9,879	
State Department	8,092	8,136	44	
Treasury Department	102,474	104,885	2,411	
National War Agencies				
Civilian Production Administration	2,431	2,443	12	
Committee on Fair Employment Practice	37	35		2
National Wage Stabilization Board	1,244	861		383
Office of Alien Property Custodian	584	598	14	
Office of Defense Transportation	226	145		81
Office of Inter-American Affairs	402	395		7
Office of Price Administration	32,209	31,911		298
Office of Scientific Research and Development	829	791		38
Office of War Mobilization and Reconversion	668	649		19
Petroleum Administration for War	117	84		33
Selective Service System	15,983	15,739		244
Smaller War Plants Corporation	1,814	[2]0		1,814
War Shipping Administration	4,156	4,231	75	
Independent Agencies				
American Battle Monuments Commission	1	1		
Civil Aeronautics Board	401	407	6	
Civil Service Commission	4,966	4,576		390
Employees' Compensation Commission	522	522		
Export-Import Bank of Washington	88	93	5	
Federal Communications Commission	1,256	1,199		57
Federal Deposit Insurance Corporation	1,205	1,217	12	
Federal Power Commission	707	720	13	
Federal Security Agency	30,878	30,947	69	
Federal Trade Commission	487	492	5	
Federal Works Agency	21,403	21,902	499	
General Accounting Office	14,352	14,641	289	
Government Printing Office	7,262	7,322	60	
Interstate Commerce Commission	2,122	2,167	45	
Maritime Commission	7,938	7,762		176
National Advisory Committee for Aeronautics	5,584	5,476		108
National Archives	357	358	1	
National Capital Housing Authority	269	267		2
National Capital Park and Planning Com.	16	16		
National Gallery of Art	279	280	1	
National Housing Agency	14,320	14,678	358	
National Labor Relations Board	816	893	77	
National Mediation Board	100	99		1
Panama Canal	233	280	47	
Railroad Retirement Board	1,803	1,914	111	
Reconstruction Finance Corporation	31,575	35,298	3,723	
Securities and Exchange Commission	1,203	1,216	13	
Smithsonian Institution	414	416	2	
Tariff Commission	267	256		11
Tax Court of the United States	121	121		
Tennessee Valley Authority	11,596	11,529		67
Veterans' Administration	105,676	117,292	11,616	
Total, excluding War and Navy Depts.	1,106,851	1,135,674	32,556	3,733
Net increase, excluding War and Navy Depts.			28,823	
Total February 1940			939,015	
Navy Department	519,550	[3]524,369	4,819	
War Department	763,812	746,184		17,628
Total, including War and Navy Depts.	2,390,213	[3]2,406,227	37,375	21,361
Net increase, including War and Navy Depts.			16,014	

[1] 225 full-time equivalent-wage and piece-work employees are included for the first time.

[2] Terminated as of Jan. 28, 1946. Employees transferred to Commerce Department and Reconstruction Finance Corporation.

[3] Included in February total for Navy Department and considered an increase and 19,482 new personnel employed during January but not reported to the committee in total for that month. Had these employees been reported in January total, there would have been a net decrease in February of 14,663 for the Navy Department and 3,468 for the entire Government.

INVENTORY IN THE BALANCE SHEET

Are We to Accept It at Full Face Value?

By ROBERT T. ALLEN
Comptroller and Manager of Credits
GRAMMER, DEMPSEY & HUDSON, Inc.
Newark, N. J.

No other one item appearing in the statement of a business concern contains the potential dynamite that is inherent in the asset commonly shown in reports as "Inventory." It represents the connecting link between the Balance Sheet and the Income Statement, and both statements are incorrect if the inventory is not shown at its "correct value." What is "correct value" is a matter of first importance to all who must rely upon the statements.

In any discussion of the valuation of inventories, it is necessary first to determine that the inventory in fact comprises only those items which are held for contemplated eventual sale at a profit in the regular course of the business. Inventory includes merchandise purchased by a trading concern for resale, raw materials and supplies to be used in the production of finished goods, items in process of manufacture for sale, and finished goods produced and awaiting sale. Inventory should not include depreciable assets, small tools, or deferred charges to expense, such as stationery, advertising supplies, etc.

Another primary consideration concerns the nature of the statement in which the inventory appears. Credit men reviewing statements submitted by customers have grown suspicious of statements of financial condition which are prepared primarily for the purpose of seeking credit. In such statements, often based on estimated or round figures, the customer is only human if he puts his best foot forward. Assets are apt to be estimated or rounded upward and liabilities are just as apt to be estimated or rounded downward — or forgotten altogether. In such statements, obviously, inventories should not be taken at full face value — and neither should any of the other assets.

Inventories Fallible

In the statement prepared from the customer's books at the end of his regular accounting period, other problems present themselves. A large number of these annual (or semi-annual or quarterly) reports have been prepared by certified public accountants and are generally much more reliable than the statements prepared by the customer primarily for credit purposes.

However, too much reliance must not be placed on the statements even when prepared by reputable accountants, especially with respect to inventories. Far and above any other item in the report, inventory has been the one to which accountants have taken exception in their certificates. It is important to read the accountant's certificate and note particularly whether any exception is taken therein with respect to the inventory item.

Even if the accountant takes no exception and thereby indicates that he is satisfied with the valuation placed on inventory in the report, there may be some question as to the ability of the accountant to act as an expert in the taking of the physical inventory. After many years in public accounting, the writer does not feel competent to act as an expert in stating that the contents of certain vats or drums are in fact "Compound No. 108" and not "Compound No. 110," and realizes that he would be forced to rely somewhat on the concern's labeling of the contents as such.

In the audit of large businesses, the accountant will have access to experts engaged for the purpose of that particular verification. However, concerns large enough to engage certified public accountants to make complete audits and render unqualified reports seldom present problems to the average credit man. He must deal with customers who may or may not have their books audited and seldom are in a position to pay for the complete audit and unqualified report of a reputable accountant.

"Conservatism"

For many years, there was a tendency to be "conservative" in valuing the inventory in the annual statement, and, as long as the inventory was not overstated, accountants and credit men alike looked with favor on the business concern which followed this "conservative" practice. With the advent of income taxes, extra incentive was given for this "conservative" policy. Obviously, business men did not want to inflate their inventory and pay taxes on the income thus created — an income which was not yet realized. And yet, business concerns have been known to have done just that, especially in times of rising tax rates.

The total inventories reported on income tax returns at the close of the year 1939 would probably have been very much higher than those reported if corporations had had the foresight to envision the effect on the excess-profits tax for 1940

(through increase of base-period earnings and decrease of profits in the excess-profits years). Likewise, due to increased rates of excess-profits tax, it would have worked to the advantage of corporations subject to the tax to have reported higher inventories at the end of 1940 and 1941. Revenue Agents, who had been trained to apply gross profit tests to ascertain that inventory was not materially understated at the end of years prior to 1939, used the same tests to ascertain that inventory was not grossly overstated at the end of the years 1939, 1940 and 1941. Where the Revenue Agent has discovered a major misstatement of inventory at the close of the year under examination, the income of not one but two years is changed with an increased tax liability resulting.

A so-called "conservative" inventory may mean that the income tax liability is also under-stated, and that is a very real liability in this period of high tax rates.

Balance Sheet vs. Income Statement

Mention has already been made of the inventory as the connecting link between the balance sheet and the income statement. Formerly, many credit men were inclined to attach primary importance to the balance sheet, possibly due to the fact that many customers refused to give their income statements to creditors.

In more recent years, the income statement has come into its own and more attention has been paid to the comparative results of operations over a period of years. If these comparisons are to have meaning, it is obvious that a consistent policy be followed in setting forth the amount of inventory at the end of the period covered by the statement.

It should be remembered that the operations for a number of years are arbitrarily divided into shorter periods by means of the inventory. An overstatement of inventory results in the overstatement of income for that period and a corresponding understatement of income in the following period. An understatement of inventory has the reverse effect. In either case, the operations for two periods are incorrectly stated and comparisons have lost their value.

Some few months ago, a leader in the accounting profession made the following statement:

"The balance sheet serves a useful purpose as a kind of liaison between successive income statements. Today the emphasis in the case of financial statements has swung to the income statement as contrasted with the emphasis that was placed on the balance sheet in the days when its primary use was for the securing of credit. Today, on the stock exchange it is the earnings which are being periodically reported by corporations that have the greatest influence upon the movements of prices for particular stocks, and the balance sheet serves as a liaison, or tying-in-together, of the earnings statements.*"

Inventory Pricing

Assuming that the inventory has been physically determined to be on hand and has also been determined to be the property of the concern at the inventory date, how should the quantities be priced?

It is fundamental that inventories should not be priced at more than their cost. Books have been written on what constitutes cost and more will doubtless be written on the subject, and there will still be confusion about what is "cost," especially with respect to certain items of manufactured goods and work in process. To what extent standard costs may be used, how much overhead should be included, should cost include overtime or training costs, are only a few of the questions which must be answered.

Formerly, most trading concerns used the "first-in first-out" method of pricing inventory, and the method is probably still used by the majority of these concerns. It is presumed that the merchandise sold was from the first purchased and the merchandise remaining unsold at the inventory date is from the more recent purchases.

In recent years, much publicity has been given to the "last-in first-out" method, often referred to as "Lifo." This method presumes that the sales are made from the most recently purchased merchandise and that the merchandise remaining unsold represents the earliest-acquired items, somewhat on the theory of a basic stock which is always carried on hand.

Both Systems Useful

The "first-in first-out" method has the advantage of relating the inventory more closely to the cost of the more current purchases, whereas the "last-in first-out" method relates the sales more closely to the current purchases at the expense of showing an inventory which may be far removed from recent purchase prices. In a period of advancing prices, the "last-in first-out" method will reduce the amount of income for the period and show the inventory at a reduced value, as compared with the "first-in first-out" method.

Either of these methods may be considered proper and correct in most circumstances, but it is important that the particular method be followed consistently from period to period. The method used in valuing inventory should be clearly indicated in the statement if the statement is to be of value for comparison with the reports of other concerns in the same industry.

Other methods of pricing inventories are based on average cost (a compromise between the two methods outlined above), standard costs (often used in valuing work in process and finished goods), and the retail method (an inventory taken at selling price reduced by the amount of mark-up percentage to the approximate cost). Space does not permit any detailed discussion of these methods.

Whatever the method, the soundness of inventory valuation will depend upon the accuracy with which the quantities are determined, the reasonableness of the price used, and the consistency in setting forth the inventory in the statements from period to period.

Questions in Valuing

Conservatism in valuing inventories has dictated that the "market" be substituted for cost in all cases where the "market" is lower than the cost. If any confusion exists as to what constitutes "cost," it is slight in comparison with what

* Walter A. Staub, in *The New York Certified Public Accountant*, of August, 1945.

is meant by "market." Does "market" mean the price at which similar merchandise can be bought, or does it mean the price at which the particular merchandise can be sold, allowing for expenses of sale and possibly for a profit on the sale? Also, should market be applied against cost on an item for item basis, on the inventory as a whole, or on some in-between classification basis?

The foregoing raises only a few of the questions which arise in valuing inventories. Much could be written about the basis of valuing manufactured products and work in process. Many concerns have recently found that the most conservative basis of valuing work in process does not reflect the losses which may be sustained in the event of contract terminations.

In the article quoted above, the author also said:

"In stating the inventory in the balance sheet, it isn't necessarily what could be realized if the business were to be discontinued, but it is the amount that may properly be charged to the operations of succeeding periods in the carrying on of the business."

While the writer was in the process of drafting this paper, the February, 1946, issue of *The Journal of Accountancy* was placed on his desk. An article entitled "Inventory Pricing" by Maurice H. Stans, appearing in that magazine, is recommended to those who would pursue this subject further.

Other Inventory Problems

We must assume that the inventory comprises only those items which will be eventually salable in their present or a completed form. Yet it is only proper to raise the question as to whether the inventory includes any obsolete or outmoded items. The passage of time will reduce the chances of selling many items at a profit; some items must be sold during the season for which they are intended or they will never be sold. This is particularly true of certain clothing and specialty lines.

Some items of inventory may be usable only for special purposes and have little or no value if that special purpose ceases to exist. Many of us have had this brought home to us rather forcibly during the recent war period. Small metal parts intended to be used in an intricate assembly became junk metal when there was no further need of the assembly for which they were intended.

A very important item which is sometimes overlooked is the matter of "balance." Let me illustrate by a rather crude example—in the making of a child's wagon which consists of a metal frame, two axles, four wheels, and a handle for pulling or steering, the inventory should contain items in proportion as they are needed to complete the wagons. A large supply of frames, wheels, and handles would not be of much use if the company did not have or could not secure the necessary number of axles. In any assembling operation, the number of assemblies which can be completed will be determined by the scarcest item and the excess quantities of the other parts may all be surplus material or scrap if any one part is not available. When contracts were terminated, many contractors were found to be ahead of schedule on one part and far behind schedule on another part which was necessary to complete the unit.

Inventory Turnover

Of major interest to the credit man is the rate of turnover of inventory. An inventory which can be turned over six times a year will be sold and be reflected in accounts receivable in two months, whereas an inventory which can be turned over only twice a year will not be reflected in accounts receivable until six months from the statement date. In thinking of inventory as a current asset, the time which elapses before the inventory reaches the receivable stage and the additional time which elapses before the receivables are converted into cash may make the inventory something other than current. The writer recalls one accounting engagement a number of years ago in the farm implement line where the time elapsed from the completion of the finished article to the receipt of payment from the customer averaged slightly over two years. Obviously, very little of that inventory could qualify as a current asset.

Nothing has been said about consigned merchandise, accounting for merchandise in transit at the inventory date, or problems arising from the valuation of and controls over inventories which may be in branches located in foreign countries.

In times of falling market prices, the question of purchase commitments can be very important, especially to the credit grantor. Business concerns do not like to disclose commitments which will probably turn out to be to their disadvantage. The necessity for advance buying in most lines, however, should warn the credit man to be on his guard in this respect even if the statement contains no mention of this item.

One more reference is made to the article quoted above to emphasize the fact that balance sheet items are based on going-concern values, which may bear little relation to liquidating values.

"Those who have had experience in liquidations and reorganizations realize that in many industries it becomes impossible to realize inventories or accounts receivable at more than a fraction of their going-concern value, once the business has ceased to be a going concern."

By this time you have doubtless come to the conclusion that the writer is an old pessimist who does not believe that any inventory should be accepted at its full face value. You are probably right.

The writer will not attempt to tell you that inventories should be accepted at any arbitrary percentage of the amount shown in the statement. Rather, his purpose has been to point out some of the problems in connection with inventory valuation in the hope that the reader will pursue the subject further and make his own decision as to the extent he will accept the inventories shown in the individual statements submitted to him.

EDITOR'S NOTE. Mr. Allen, besides being a credit executive, is also a CPA. We think this article is as well-thought-out and well-written as anything we have printed. The subject is a highly interesting one. What do you think about it? Do you agree with him? If not, write to us and tell us what you think.

BLUEPRINTING BUSINESS PLANNING

Budgetary Control as a Guide to Management

By PAUL M. MILLIANS*
Vice-President
COMMERCIAL CREDIT CORPORATION
Baltimore, Md.

Success is not all arithmetic by any means. There must be sound judgment in management—a business cannot pay its rent or meet a Saturday payroll with an accounting figure or a statistic—but the exact knowledge which proper accounting records always reveal is constantly needed to tell good management what its judgment is doing, and what its decisions on future operations should be.

Building a successful business is like building a bridge. It must have balance. It must have certain margins of safety. Reach into the industrial scrap-heap, pull out a business failure and examine it and what do we find? The chances are about eighty-five out of a hundred that the business failed because its management did not know the underlying conditions which influenced success or failure—it did not know both in absolute and relative form the operating relationships between cost and price and volume—it did not know the margins of safety between important balance sheet ratios.

Conditions? Lack of capital? These are too frequently the hiding places of incompetent management. Barring some wholly unpredictable catastrophe, no business ever failed primarily from "conditions" or "lack of capital." A business may have to liquidate because of a necessity for adjusting inside facts of operations to outside conditions, but it will not fail. And inadequate capital is just another way of saying that a business is not being operated in a manner consistent with the total of its own resources and available credit lines.

*An address before Nashville Chapter, National association of Cost Accountants, March 12.

And looking ahead, present conditions are certainly in conspiracy against a business that does not have good accounting. For in the pitiless glare of today's new and fast-changing conditions, and of new requirements, no business can move forward surely and safely without current knowledge of the play and inter-play of forces which lie at the heart of its profit structure.

Elbert Hubbard once said, "An executive is a man who makes a lot of decisions—and some of them are right." In the difficult future, right decisions will have to be in a higher majority because profit cushions for errors will be thinner. Which brings us, probably after too much prologue, to the subject itself: "Budgetary Control."

Budgets Widely Discussed

Perhaps on no other subject has so much been written in the literature of American business. And hundreds of meetings have been devoted to discussion of budgeting in its various forms. Therefore, I shall not go into any great detail here on the technical construction of a budget. Rather, I should like to examine with you just two questions: What is a budget? What are its values to management? Very little on the first question; more on the second. . . .

Our first question, what is a budget, is elementary and I apologize for it. But I pose the question deliberately because many accounting records that masquerade under the name of "budget" are, in fact, not budgets at all. As an instrument of management they fail miserably and dangerously — dangerously because they frequently lead astray rather than help. And the reasons for this are not difficult to find. . . .

The Budget Itself

In the first place—and we should fix the blame where it belongs—accounting and accountants are responsible. We have observed in the commercial research activities of Commercial Credit Corporation that, too generally, accounting classifications and procedures are such that construction of an effective budget is impossible. Operating results are largely expressed in totals of income and expense accounts with no effort whatever made to show results in terms of the logically separable units upon which the success or failure of the business depends. An effective budget cannot be constructed from such accounting.

To a larger extent, however, management is responsible for the widespread lack of effective budgeting in business—it does not demand the type of accounting needed for effective budgeting. The adage that "what man does not understand he tends to oppose" finds proof in the fact that many men in top positions of management oppose budgeting simply because they do not understand either its form or its values. With all that has been written and said about budgeting, there is still a too general belief that chance factors make business

planning impractical. But business planning is not crystal gazing. A budget is not even a prophecy; it does not even pretend to say what changes will occur.

A Blue Print for Management

A budget is a master blue print of a business intended to establish significant relationships not revealed by usual accounting practices: a blue print which breaks the operation of a business—any business—down to its elements and measures these elements singly, and also in relation to their inter-action on the profits of the business as a coordinate whole; a blue print to give currently to management the result of decisions already made, and to support judgments on what the profit result will be if certain changes do occur.

What has been the contribution of each natural division of operation to the total profit or loss result? If volume is increased what will be the change in the elements of fixed and variable costs? What would be the net profit result if fixed costs in relation to present volume could be reduced? Improvement in price or rate without change in other elements, what would the result be? What is the break-even point in operations? Questions like these go to the very core of good management. They are very real questions. They are very practical questions. The right kind of budget gives answers to these questions instantly and currently—in time for something to be done about conditions that need to be corrected.

What is a budget? Properly constructed and watched by those schooled in its use, the operating budget is a highly polished instrument of management control.

Its Value to Executives

Descending to our second question, what are the values of a budget, I have in mind intangible values — values beyond those concerned with the arithmetic of operations.

The solution of the mariner's problem was the compass. It put something inside ships to sail by and brought liberation from the coast line. By this same token an operating budget of the kind we have roughed out should liberate men in top positions from the coast line of detailed supervision. Responsibility and accountability can be safely delegated because the discretion and judgment of those responsible for various units of operation rest hard by measured results.

Thus, men in top positions have more time to carry on their own function which cannot be delegated—leadership. If the whole mental energy of business leadership is absorbed in mastering details of administration, oftentimes the important problem of continuous improvement is neglected, and there is too little time for study of broader fundamentals which tie a business with the trend of business at large.

The Four Intangibles

So I name as the first intangible value of a correct operating budget, the liberation of top-management from time-consuming detail.

The second intangible I shall call more effective teamwork. If the operating budget—as it should be—is drawn up from the talents of all who have an important contribution to make, individual strength is brought together in a loyalty to the big main result, a loyalty that rises above the prestige and interests of individual jobs. This develops a sense of family, a feeling of mutual togetherness which means that scattered thoughts and abilities coalesce—they no longer stay apart like blobs of mercury.

Important? The first job of management is to draw out of men the best that is in them and to keep men of strength working loyally together toward a common objective. Wendell Wilkie said shortly before his untimely death that the competent man when he is given responsibility inevitably becomes more competent . . . and that leaders are not born, they grow with the exercise of responsibility.

A third intangible I shall call a positive attitude toward business operations. An operating budget sets a goal—an ideal—and a coordinated effort toward reaching this goal builds up a powerful counterforce against negative thinking. Too many executives think negatively in terms of what must be averted instead of what can be accomplished. No business has ever grown great on a philosophy of inhibitions, and successful management of tomorrow's business will depend importantly upon the removal of negative forces and the substitution of a positive view toward the fresh horizons ahead.

A fourth and final intangible I name the courage of decision. Sound planning and the checking of results with the plan gives courage that speeds important management decisions. Indecisions and delays, deliberation and postponement, slow down operations and constitute a serious drag on profits. Procrastination in business affairs is not only a thief of time, it is a cold murderer of progress.

A Budget as a Lighthouse

Budgetary Control? I have not attempted a definitive catalog of all that perhaps should be said on budgeting. I have tried rather to give what Henry Weaver of General Motors calls a "thought starter" for discussion. But before closing, may I protect what I have said. . . . Any sailor can tell you that no lighthouse ever saved a ship from sinking. All it did was to light the way. No operating budget will ever keep a business from sinking, for no budget can ever supplant good management ability and judgment upon which the success or failure of business primarily depends.

Accounting reflects—it does not create. And the chances are about two to one that a good man with a bad plan will be more successful than a bad man with a good plan. Which reminds me of a poem I ran across in my reading some time ago. It is by Sir Matthew Webster Jenkinson, English Chartered Accountant:

"Though your balance sheet's a model of what balance sheets should be,
Typed and ruled with great precision in a type that all can see;
One asset is omitted—and its worth I want to know;
That asset is the value of the men who run the show."

But may I conclude by saying that the importance of good management does not lessen one whit the importance of business planning. A budget lights the way.

BAILMENT OR LEASE CONTRACTS

Fifth in a Series of Discussions on Secured Sales

by CARL B. EVERBERG
LL.B., LL.M.
Special Writer on the Laws Affecting Trade

Practically all the articles published in this series have been designed to point out how a manufacturer may ship merchandise and still keep a string tied to it to pull it in again if the customer falls down on his obligation. Thus in the case of the conditional sale he retains title till the goods are paid for; with a chattel mortgage he takes back the title (or is given a lien on it); and in a consignment transaction the consignee is merely an agent and must return the goods when occasion demands. Now we come to still another similar type of dealing—where the manufacturer hires out or lets his merchandise for rent.

The transaction we are treating on in this article is best known as "bailment lease." It is however known as a "rental agreement" as well as a personal property lease. The bailment lease is especially popular in the state of Pennsylvania. The word "bailment" is undoubtedly appropriate since a bailment in law comprehends a delivery of personal property by one person to another with an understanding that the second person shall do something to it such as keep it for a time, account for it, or return it when the first person asks for it. But the use of the word "bailment" is more historical than useful, and the more important term in the expression is the word "lease." We could well drop the "bailment" half of the phrase and call it a "lease," or describe the contract as a "rental agreement."

At this point it must be admitted that the average manufacturer wants to sell and not rent his merchandise (though for reasons of policy many manufacturers, especially those who hold highly valuable patents on machines and devices, prefer to rent instead of sell.) Nevertheless the manufacturer who really wants to sell and dispose of his goods may also use the lease as an expedient much after the manner of conditional sale, chattel mortgage and consignment. And a lessor in addition to keeping a string on the goods need not ordinarily record the instrument in the usual offices of public records. But as to that it depends on how pure we can keep the transaction a lease and not make it turn into a conditional sale (which must be recorded almost everywhere in the states of the United States to be good against third persons).

Difficulties of Leases

If we can frame a contract so that it will remain in effect a lease (or bailment), title will remain in the lessor and so he will have security by being able to take his goods back or keep other persons from seizing them. Now in the case of a pure lease we do not have much difficulty but we want to be able to do more if possible. As mentioned above, the average manufacturer does not want to rent out his goods; he wants to sell them. Therefore we want an instrument which will permit the lessee to keep the goods after he has paid a stipulated total amount of rent. Can this be done without destroying the lessor and lessee relationship? If it can and we are saved the necessity of recording the agreement we have a most valuable legal device for merchandising.

At first blush it would seem that we cannot make both "fish and fowl" out of the same creature as we cannot have a good consignment contract when we attempt to set up an obligation on the part of the consignee to pay for such goods as remain unsold. And it is certainly true that if a so-called "rental agreement" be drawn so as to make the lessee liable for the value of the merchandise at some time in the future it will not be construed as a lease but as a conditional sale and will be subject to the recording requirements concerning conditional sales.

Nevertheless in certain jurisdictions the courts give favor to bailment leases and consider the parties under them as bailor and bailee and not vendor and vendee, even when they are drawn so as ultimately to make the "lessee" owner of the goods. These cases present some of the nicest questions in mercantile law.

In Pennsylvania for example, a contract will be construed as a bailment lease in which merchandise is "leased" to a person for a particular time and specified rental, with an option to that person to purchase the goods during or at the expiration of the time. *284 Pa. 41 —4 Fed. (2nd) 50.*

How Bailment Works

The parties to such type of contract are designated "bailor" and "bailee." The bailor leases certain described goods of a certain value, to the bailee for a definite period. The bailee agrees to pay a certain sum on the delivery of the goods

and a stipulated monthly amount for the hire of the goods until the sum stated is paid in full. The option to purchase the goods may be and are often drawn in a variety of different ways, but one that goes well to preserve the bailor-bailee relationship provides that the bailee agrees to surrender and return to the bailor at the expiration of the rent term the said goods, but that *after* the surrender the bailee "may at his option, purchase the goods upon a further payment of" $..... (usually a nominal amount), and provided all the rentals have been paid.

Looking critically at the transaction and seeing that the total rent to be paid by the bailee is equivalent to the price of the goods one may ask—is it really rent or is it nothing more than the purchase price under the guise of rent? And when the bailee exercises his option to become owner of the goods all he needs to spend is usually another dollar (frequently the nominal amount stipulated). A bit of legal magic? Perhaps so but the courts in Pennsylvania as well as the courts in quite a few other states have given their judicial blessing to this kind of dealing and they say the contract is one of hire and not of sale. Hence the "lessor's" right to the goods is paramount to any one else's even though not recorded. But see as to Pa. landlord's priority at end of this article.

These courts stand on the ground that there is no obligation on the part of the bailee to purchase. And further they distinguish this sort of contract from a conditional sale in that the bailor cannot (as can a conditional vendor) choose between two remedies in the event of default—either retake the property or waive that right and sue for the purchase price.

Bailment Or Conditional Sale?

The line of demarcation between a bailment lease and conditional sale is thin even in states which favor these contracts. An agreement providing that upon completion of the rental payments the lessee had the privilege of buying the goods for an additional dollar without the further provision calling for the return of the merchandise at the end of the rental period was held a conditional sale. *142 Pa. 233.*

A principal feature to be incorporated in a good bailment lease, therefore, is the requirement that the lessee is to return the property at the end of the rental period.

Another so-called "lease" which provided that the lessee should have the right to purchase the property at a price equalling the sum total of the stipulated rental price, all payments made by the lessee to be deducted from said price, was held a conditional sale. The court while characterizing the transaction a mere subterfuge for a conditional sale did add that it did not mean to imply that parties, when acting in good faith, cannot make a valid lease with an option reserved by the lessee to purchase. The real nature of the transaction, it said, is to be determined according to the intent of the parties to be gathered from the language or from what they actually meant. *144 N. C. 279.*

In another case an instrument designated a "lease" and providing for a monthly rent of $40.00 till an aggregate of approximately $1200 was paid (the value of the property), and further providing that after payment in full of this amount, a bill of sale was to be made to the lessee, was held a conditional sale. The court said that the payments called "rent" were in fact nothing else but partial payments under a sale. *128 Cal. 170.*

The Rule In Other States

Other courts than those in Pennsylvania, however, sanction the use of the bailment lease where the lessee is given a right to purchase. The Supreme Court of the state of Washington passed favorably on such a contract. In that case a railroad leased to a lumber company rails, bolts, spikes and angle bars. In the contract a value of $40.00 per ton was specified. The annual rent was to be computed at the rate of 12% of such value. The lease was to terminate in 5 years but the lumber company was to have the right at any time prior to the termination, by giving 30 days' notice in writing, to purchase the whole of the merchandise at prices equal to the stated value, less a deduction of 6% for depreciation. The court in this case reasoned that the lessee had nothing but an option which he might exercise or not as he saw fit. And further, the lessor had no choice of remedies such as a conditional vendor would have —either retake the property or sue for the purchase price. *146 Wash. 543.*

Though this contract contained no requirement for the return of the merchandise at the end of the period the court held it was a lease. Presumably the court read into the contract an implied agreement to return the merchandise.

Of course the purer the lease the more readily it is approved by the courts. An ice cream company placed a Frigidaire with a confectioner with the understanding that it was to be used in the handling of the ice cream company's product. The confectioner was, under the agreement, to purchase a certain quantity of cream per year in which event the use of it was free, but if the confectioner failed to purchase the quantity of cream set out in the agreement he was to pay a certain rental for the cabinet. This case arose in Virginia and a federal court, hearing a bankruptcy case, held such contract did not require recording and that title always remained in the ice cream company against all creditors and trustee in bankruptcy in particular, of the lessee. *35 Fed. (2nd) 439.*

A Missouri court while holding a certain agreement a conditional sale which provided for rentals but in which the "lessor" agreed to convey title on payment of the last installment, added that if the contract had either required or permitted the return of the property it would have been construed as a lease.

Two Cases in Washington

In the District of Columbia the lessor leased a dictaphone valued at $100, the lessee to pay a rental of $10 per month until the whole amount of $100 was paid. The agreement provided that the lessee might purchase the machine at a price equivalent to the agreed value and all sums paid as rentals to be credited. The lessee further agreed

that at the expiration of the period (provided he had not exercised his option to purchase) he would return the machine, without any allowance, credit, depreciation, etc. against the payments made as rentals. The court held this to be a contract of hire and not a sale. 45 *App. D. C. 146.*

But a court in the same district later held a contract which purported to be a lease but which recited a payment of 50% of the total amount of rentals in advance, and which gave the lessee an option of buying the merchandise for only $1.00 more than the prescribed rental, to be a conditional sale. The court said that the large cash payment under the guise of advance rent and the requirement of only $1.00 in excess of the total rental of almost $2500 to effect a transfer of title, gave it the complexion of a sale and not a bailment. *285 Fed. 925.*

Contracts Favor Lessors

The writer has had opportunity to examine the form of contract used by certain department stores in Pennsylvania in the merchandising of articles to retail customers. Such paper was drafted as a pure lease and omitted any reference to an option on the part of the lessee to purchase or to become owner at any time in the future. Obviously the composers drafted the form so as to leave no doubt that a court would construe it as a contract of hire and consequently relieve the lessor from recording the transaction. But what about the fellow on the other end? If he took the pains to read the contract he would find he was only renting the merchandise. Is this the understanding he had when he ordered the furniture (or other goods)? But on the other hand why should he worry? If he pays the total rental the store crosses the transaction off the books and though technically it is only rented property the lessor will never till the "crack of doom" assert any title in it. Such are the curious things done in the name of the law.

The type of contract just mentioned may not be very satisfactory to a lessee who must virtually trust the lessor to forget about the modicum of interest the latter may legally have in the property after the total amount of rentals has been paid. Technically, and determining the rights of the parties solely by what appears between the four corners of the instrument, the lessor has the right to the possession of the property at the end of the so-called rental period even if the lessee has paid for the value of the merchandise. Only the silent acquiescence on the part of the lessor permitting the lessee to keep the property and consider it as his own, will give the lessee the enjoyment to have and to hold the property forever.

A bailment lease need not omit, however, a provision giving the lessee at least an option to purchase the property, provided he is required to return the goods at the end of the rental period, especially in those states favoring bailment leases.

And while it has been said that several of the states do not recognize bailment leases whatsoever, an examination of many cases reveals generally the fact that the contracts passed upon by the courts were not drawn within the strict requirements of a good lease. Let it also be emphasized here that when we refer to a "good" bailment lease we mean that it is to be effective against third parties—creditors and encumbrancers of the lessee. The worst that can happen to a "lease" is that it will be construed as a conditional sale requiring recording according to law to be effective against all parties.

More Decisions

In Arkansas a contract called a "lease" failed as such because it provided that title to a machine was to remain in the lessor till final payment was made in full. Clearly it was judged to be a conditional sale. *130 Ark. 381.*

A contract in California recited that upon payment of all "rentals" and payment of another dollar, title was to vest in the lessee. The purported lease amounted to no more than a conditional sale. *181 Cal. 51.*

But the Alabama Supreme Court held a certain contract a lease and not a conditional sale which described property valued at $751, and which provided merely for monthly rentals (without any option to purchase) upon default of which the lessor could bring detinue for the recovery of the property. *16 Ala. App. 267.*

A California court held a contract to be a bailment lease which after providing for rent for the use of the property gave the lessee the option of purchasing it for an additional amount. The court said that the controlling factor was whether the lessee was under obligation to make the purchase. Since he was not it was held a bailment lease. *4 Cal. App. 488.*

In Conn. the Supreme Court held a contract a bailment in which the lessee agreed to pay $200 per month for a cableway with a further provision that should the lessee obtain a certain large job he might purchase it and credit the rentals already paid to the price. *79 Conn. 419.*

Reference is made to the District of Columbia decision above which held the transaction a bailment. *45 App. D. C. 146.*

An old Mass. case (22 Pick. 535) held a contract a lease in which A let a wagon to B to use. When B would pay the sum of $80 the wagon was to become his but if he did not pay the agreed value he was to pay for the use of the vehicle. Whether the Mass. Supreme Court would follow the precedent of this case today is not of course known.

The Miss. Supreme Court held the following contract a lease even against the strong arguments of the lessor to the contrary. The lessor leased certain equipment of a total value of $1775 at a rental of $33 per month. The contract further provided that upon full payment title should vest in the lessee. But the contract and notes given in the transaction stipulated that the obligations were not to be taken as payments on the property but only as evidence of what the lessee would have to pay in order to become owner. *97 Miss. 622.*

The Nebraska Supreme Court held a contract a bailment lease which merely provided for rentals and obligation for the return of the merchandise at the end of the rental period. *59 Nebr. 597.*

For other cases holding variously drafted instruments as leases and not conditional sales, see Singer Mfg. Co. vs. D. Wolff (N. J.) *56 Atl. 147;* Foreman vs. Drake (N. C.) *3 S. E. 842;* United Shoe Repairing Mach. Co. vs. Asoumanakis (Wis.) *178 N. W. 312;* and Cutler Mail Chute Co. vs. Crawford (N. Y.) *152 N. Y. Supp. 750.*

The last mentioned decision held that a provision in the rental contract accelerating the rent for the entire period (i. e. upon default in any rental due, all remaining rent at the option of the lessor to become immediately due and payable) did not destroy the lessor-lessee relationship between the parties.

And it is interesting to note that the court added that if a default had occurred and the lessor declared the rent for the entire period to become immediately due and payable and the lessee accordingly paid it all in one payment, then the lessor could *not* have removed the goods even though the contract purported to give him that right. The court said that the effect of the contract was to give the lessor an option, either to remove the goods or compel the lessee to pay for the entire rent for the whole period in one payment.

Conclusions to Be Drawn

1. The principal advantage in using the bailment lease form of contract lies in the avoidance of the necessity of recording the transaction. This point should be carefully explored in each state where this method of merchandising may be employed. Some states are traditionally hostile to any kind of unrecorded contract whereby delivery of goods is made to one party and title retained by the other. In some states an attempt has probably been made by legislators to include leases in the recording statutes covering conditional sales. For example some of the Acts contain the following language: "lease wherein the transfer of title or ownership of personal property is made to depend upon any condition." Yet a lease ought not to be drawn in such a manner as to effect transfer of title upon some condition (payment of total value, last installment, etc.) to be performed by the lessee. On the contrary it should consist of merely a lease of chattels on the one hand and a provision for an independent option on the part of the lessee to purchase these same goods if he chooses, on the other. A lease stands as one thing and an option to purchase goods as another. The incorporation of two such clearly stated contractual propositions in one instrument should be regarded as a logical structure of language and not as some kind of mongrel creature to be condemned as something which it is not. Of course mistakes have been made, and they abound in the case books, in attempting to clothe a conditional sale in the dress of a lease hoping that the dress will conceal the true identity and nature of the creature underneath.

2. The lessor's remedies are more restricted than those of the conditional vendor. His remedy in case of default (outside of holding the lessee for any unpaid delinquent rental installment) is to repossess the goods. But he cannot elect to sue the lessee for the price of the goods because under a proper bailment lease there exists no liability or obligation on the lessee to pay the price.

3. If the lessor cannot obtain possession of the goods peaceably he may resort to the legal remedy of replevin (or detinue as it is called in some few states).

4. In Pennsylvania the lessor should obtain a landlord's waiver because the landlord comes ahead of even a bailor in this state.

Many States Add To Provisions of GI Bill With Special Grants

In addition to the benefits afforded the ex-service man by the "GI Bill of Rights," many states are now offering loans and even outright gifts to veterans who fulfil residence requirements.

According to the Wall Street Journal, California will now lend up to $6,500 at 4 per cent for the purchase of a home, and on May 21 will raise this sum to $7,500. For farm buying a loan of $12,500, later to be increased to $13,500, is offered. These loans are available only to those who have not applied for a Federal loan. However, California offers, in addition to the Federal education benefits, an outright gift of as much as $1,000, in monthly instalments of $40, to Californian ex-service men.

One thousand dollar scholarships are proposed in Ohio for ex-service men and women to enable them to study abroad, as a means of promoting goodwill and understanding, and in New York State preliminary approval has been obtained for bonus payments of from $50 to $250 to 1,700,000 veterans.

Bulk-Line Pricing Is Suggested as Solution For Price-Control Ills

Adoption of bulk-line pricing procedure in preference to complete removal of price controls and limitations to stimulate production has been advocated by George A. Renard, executive secretary of the National Association of Purchasing Agents.

"Under bulk-line pricing," Mr. Renard says, "you determine how much production of any scarce commodity is needed, and set the price that will develop and float that production, instead of relating it to profits of 1936-39 or some technical formula." He pointed out that bulk-line pricing can be adopted promptly and without any long drawn out period of uncertainty.

"A Price Adjustment Board can handle bulk-line pricing without a horde of economists, statisticians and lawyers. We know now that prices must be relaxed to get the necessary production with our increased costs," Mr. Renard stated, "but at present we are relaxing them piecemeal and grudgingly. OPA did a fine job and our retreat in the relaxation of prices should be done openly and with no apologies," he concluded, "but positive action must be taken promptly to prevent a demoralized retreat under extremely unstable conditions."

BANKING AS A BUSINESS AID

Progressive Trends and Opportunities to Come

By FRANK JEROME
Vice-President
FIRST NATIONAL BANK
Seattle, Washington

There have been many important developments in banking during the past fifteen years.

Many of us are old enough to remember when the services rendered to the public were primarily those of a depositary for funds, the cashing of checks and the granting of credit upon a very conventional basis. We can well remember that most commercial banks would not make real estate mortgage loans, let alone salary loans for the purpose of purchasing automobiles and other household appliances or for the modernization of homes. A request for even a business loan which would run beyond the customary period of ninety days, called for a special meeting of the Loan Committee.

Bankers Are Salesmen

Since the Depression and during the war years, banking has made great strides. It has shown itself to be a most versatile business. It is on the threshold of a great era for it has virtually developed into a "Financial Department Store." It has awakened to the realization that, like all business, it must study people and their needs, and it must learn to cater to their needs. There is no difference between a bank and a manufacturer who studies a market and learns what kind of toothbrushes people like, how they feel about the post-war automobile, and what they would like in the way of radios, refrigerators and washing machines.

Banks, too, have a product to sell and, too, are among the chief contributors to a nation's welfare. People want and need consumer credit, personal loans, installment financing, and "economy" checking accounts, home modernization loans, and all the other modern facilities that have come into being in the banking business resulting in such a highly diversified service to the general public. The bank must, therefore, develop the same sense of sales and merchandising that characterizes the manufacturer of a new soap or a new toothbrush. Where a manufacturer is largely dependent upon advertising to submit his ideas, the banker has the additional advantage of reaching new business prospects through his own customers and through his daily contacts with the public.

It is the nature of these contacts that constitutes the bank's "testing ground" and provides a banker with his foremost opportunity—whether he is an officer or an employee. Cultivating good will is a constant day-to-day and hour-to-hour business. The banker's knack in selling himself to the public is directly related to two qualities: First, his human interest in, and his understanding of people and their needs; and second, his ability to talk to people courteously, briefly and in language that they can understand.

Banks' Field Expanding

Deposits of banks have mushroomed and in order to utilize them as fully as we should, we have been going into lending fields formerly serviced by finance companies and the investment markets. Instead of selling stock or raising money through bond issues, many large companies are finding it cheaper and less burdensome to arrange long-term bank loans to finance an expansion program or to provide for an anticipated increase in their volume of business. Term loans of this character — not considered proper investments 20 years ago—run on an amortization basis for as long as seven to ten years.

The "riskless loan" period is over and progressive banks are now prepared to assume legitimate credit risks consistent with sound banking principles. Our job ahead is clear-cut. We are passing from a phase of large deposits invested in Government securities to one of more active commercial and individual lending, together with a wide variety of other services, which makes banking interesting and a constructive force in the development of a community.

The Long View Pays

The war-time record of the banking fraternity has been superb and we bankers have further important opportunities to keep our profession at the top of the list. It is often said that "if a man builds a better mousetrap the world will beat a path to his door." It is the same old story in the business world. The boss beats a path to the man who looks at problems from the long-term viewpoint and not just for today—who looks at things more from the viewpoint of the other fellow which is necessary in getting along with other employees and customers—who makes his job a studied art, and who is ever on the alert for ideas and methods which might be successfully applied to his job.

BANKRUPTCY LULL ONLY TEMPORARY

Administrative Office Warns Business Men

While there were only 12,862 bankruptcy cases commenced in the United States District Courts during the fiscal year 1945 as compared with 19,533 in 1944, the report of the Bankruptcy Division of the Administrative Office of the United States Courts warns business men that bankruptcy history records a sharp increase in the number of bankruptcy cases after every national war. It points to the period from 1919, when bankruptcy cases in this country reached a low of about 12,000, to the rapid yearly increase through the years after World War One, until in 1931 the number of cases reached the amazing total of 70,000 or over.

Edwin L. Covey, Chief of the Bankruptcy Division, in his report points out that the total decline in number of cases during World War II was far greater than that of the first World War period. "The number of cases filed in 1945 represented only 22.5 per cent of the number of cases filed in the prewar year 1941." Mr. Covey gives the following figures to show the number of cases filed in the two war periods:

In his report Mr. Covey presents some very interesting charts, one of which shows the volume of bankruptcy cases commencing with the year 1904 and carrying through to 1945. In this period of more than forty years the number of cases recorded or filed in 1945 is the lowest for the entire span.

In another chart, Mr. Covey shows the average amount realized per case in so-called asset cases and the average expense of administration per case in each circuit and the percentage of expense of administration to assets realized.

Results in Different Areas

"In the 2,547 asset cases closed in 1945," Mr. Covey's report shows, "the total net proceeds realized were $19,776,003 as compared with $20,316,126 realized in the 4,214 asset cases closed in 1944. The average realization per case in 1945 was $7,764.43 as against $4,821.10 in 1944. The percentage of costs of administration to total proceeds realized decreased from 24.3 per cent in 1944 to 21.6 per cent in 1945. This is in line with the general trend that the percentage cost of administration tends to be lower as the size of the estates increases and vice versa.

Pre-War Period	War Period				Post-War Period	
1916	1917	1918	1919		1920	1921
27,368	24,838	20,385	14,048	......	13,558	22,812
1941	1942	1943	1944	1945	1946	1947
57,081	52,109	34,711	19,533	12,862	......	......

Expects Further Decline

Mr. Covey further points out that there will be still another decline during 1946, as previous records show no substantial increase in the number of cases filed during the eighteen month period following national wars.

"The average total realization per case ranged from $1,988.46 in the First Circuit to $23,557.64 in the Tenth. The percentage cost of administration ranged from 13.6 per cent for an average estate of $11,513.50 in the District of Columbia to 35.4 per cent for an average estate of $1,988.46 in the First Circuit (New England). The costs of administration were particularly low in the Fourth Circuit where 140 cases averaging $5,947.63 in assets realized were administered for 15.5 per cent. In comparing this circuit's figures with the United States totals, where estates averaging $7,764.43 were administered for 21.6 per cent, we find an exception to the general trend that the percentage cost of administration increases as the size of the estate decreases. The Sixth Circuit was another exception to this rule. The estates of this circuit averaged $7,751.40, which was practically the same as the country average of $7,767.43, and were administered for an average cost of $1,346.98 as compared with $1,676.15 for the country as a whole. The costs of administration in the Sixth Circuit were 20 per cent lower than the average costs for the country. Low administrative costs were also reported in the Third and Tenth Circuits. These were, however, the result of two very large cases in each circuit. If we remove these four cases from their respective circuits, the percentage cost of administration will be 23.6 per cent in each of these circuits which is more nearly in line with the costs of the other circuits.

"Of the total realization of $19,776,003 the referees received $162,260 or .8 of 1 per cent for fees and commissions and $189,802 or approximately 1 per cent for expenses. A chart (reproduced herewith) shows the referee's average expenses by circuits. These range from $51.90 in the Sixth Circuit and $52.29 in the First Circuit to $141.39 in the Tenth Circuit. The

higher referee's costs in dollars in the Tenth Circuit were due to the closing of a particularly large case in the District of Kansas. In this district the referee's costs amounted to $477.73 per case. These same costs, however, represented only .6 of 1 per cent of the total net proceeds realized. The referee's average costs per case increased from $66.25 in 1944 to $74.52 in 1945.

Nominal Asset Cases Costly

"The referee's average costs in nominal asset cases rose from $26.39 in 1944 to $28.42 in 1945. The Third, Fifth, and Tenth Circuits showed decreases while the other seven circuits and the District of Columbia recorded increases. In no instance were these increases substantial. With the exception of the Eighth Circuit, the circuit figures followed very closely the average of the whole country. These costs range from $19.27 in the Eighth Circuit to $34.09 in the First Circuit. The total costs of administration in these same cases ranged from $61.14 in the Fourth Circuit to $158.93 in the Seventh. There is less variance between circuits in nominal asset cases than there is in either asset or no-asset cases.

"There was a marked variance between the circuits in the referee's average expenses per case in no-asset cases. The Fifth and Third Circuits maintained their relative positions of lowest and highest costs for these cases with averages of $5.51 and $26.42 respectively as compared with the United States average of $17.91. The low costs in the Fifth Circuit were the result of the particularly low charges in the Northern District of Alabama where 1,385 cases were administered for an average of $2.91 per case.

"The overall referee's average expense for all types of cases administered, increased from $25.71 in 1944 to $28.36 in 1945. This is the logical effect of the decreased volume of asset and no-asset cases. The lack of a sustaining volume made it necessary for referees to increase their charges in order to maintain their offices."

(Charts on page 26)

Now This Really Is Credit

We are grateful to the editors of THE NEW YORKER *for permission to reprint the letter below.*

OUR IMPRESSIONABLE READERS

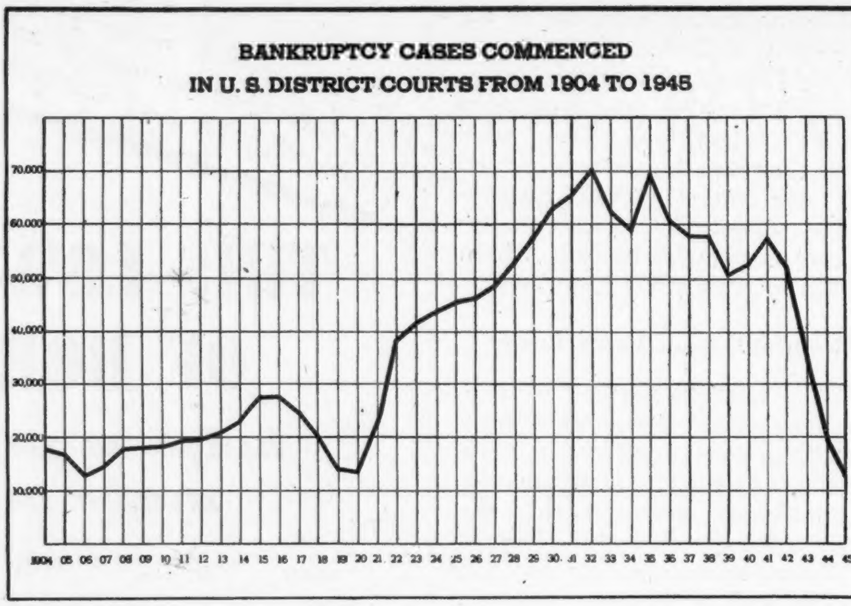
New York City
March 13, 1946

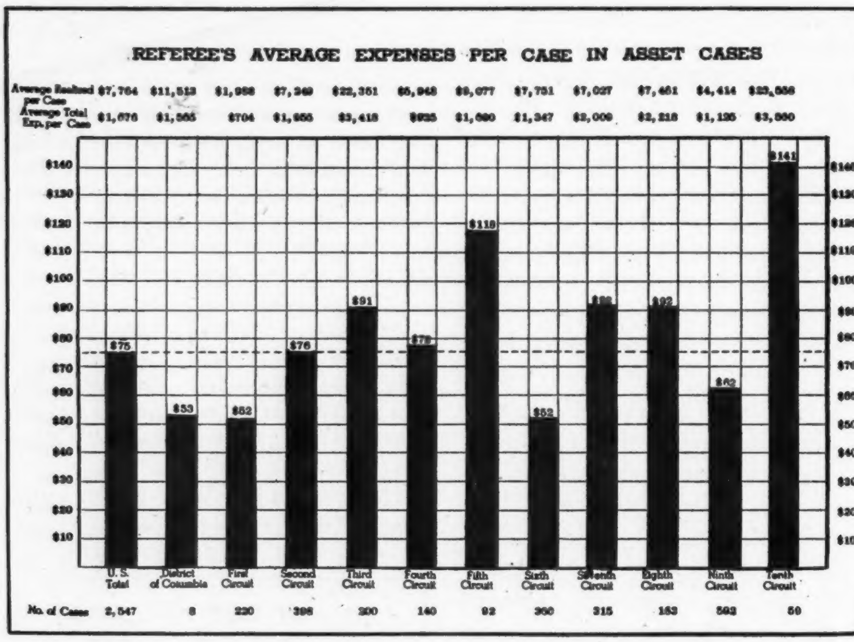
To the Editors of *The New Yorker*,
Gentlemen:

I've just been reading the Kaiser-Frazer ad in your magazine (March 9th issue) and am delighted to learn that the cars this spring will be 1947 models, not 1946. It is of particular interest to me to read that the Kaiser-Frazer Corporation proposes leaving '46 behind. I have been considering the same step myself and naturally it is encouraging to know that I'm not alone.

Who wants 1946? Nobody. I am counting on the powerful and luxurious new 1947 Kaiser to sweep me into the future, and I intend to get behind the wheel of one this spring. There is only one matter I feel I should take up with the corporation. I, too, have been doing some restyling. For one thing, I never date a check 1946 any more. I date mine 1947. I assume, of course, that this will please a corporation that is as far ahead of today as K-F. My check in payment for the new Kaiser automobile that I hope to receive next month will be a single-unit, torsionetically suspended check on the Implicit Trust Company dated May 1, 1947. I would not dream of offering a 1946 check, with all its limitations of design, for a 1947 car. Brilliantly printed, smartly inscribed, honestly drawn, this check of mine is going to be Kaiser-Frazer's post-dated check of their dreams. It will offer the corporation modern evasive features it never thought it would find in a low-figure bank draft, and I am sure that the corporation will gain a new concept of check-cashing satisfaction — twelve months of smooth, silent, effortless waiting.

Very truly yours,
E. B. WHITE





Detroit Credit Men Plan Summer Cruise

Detroit: Much interest is being displayed in the cruise which the Detroit ACM is planning for July 12, 13 and 14. The steamer leaves Detroit, Friday, July 12, at 8:00 P.M. and returns Monday morning in time for business.

After a delightful sail on Saturday, the steamer enters the scenic harbor of quaint Harbor Springs at sunset. It remains at this attractive resort town until midnight. On Sunday five hours are spent at Mackinac Island, "the Bermuda of the North," where time is allowed for attending church services, and also for a carriage ride around the island. Special entertainment and dance will be afforded passengers on the trip. The arrangements are in the hands of the Secretary of the ACM.

Boston President Follows In Father's Footsteps

Boston: Laurence S. Day, whose photograph appears in this month's "Presidents' Pages," has the unusual distinction of holding the same office in the Boston Association as his father did in 1935. Such an occurence is unusual if not unique in NACM history.

Laurence Day joined the Boston association in 1924. He was then connected with W. F. Schrafft & Sons Corp., and for a number of years has been that firm's Credit Manager. For three years he was a member of the Legislative Committee of the NACM, and is now an instructor in "Analysis of Financial Statements" in the courses held at Harvard under the auspices of the State University Extension. Mr. Day is a graduate of Brown University.

Foreign Credit Men Discuss Government Trade Policies

New York: The Foreign Credit Interchange Bureau sponsored a luncheon on March 19 at the Pennsylvania Hotel, in connection with the annual get-together of the Export Managers' Club of New York. A. N. Gentes, Second Vice-President of the Guaranty Trust Co., occupied the chair and discussions were led by C. A. Richards, Director of the Export Division, Interchemical Corp., W. S. Swingle, Vice-President, National Foreign Trade Council and Wilbert Ward, Vice-President of the National City Bank.

Commenting upon the $18,000,000 stake in credits to foreign countries which is contemplated by the U. S. government, Mr. Ward stressed the importance of seeing that these funds are used to create the utmost productivity. In referring to the lending policy of the Export-Import bank and its statement that Government purchasing missions should be abolished as the transition ends, he emphasized the fact that the bank's activities will set the pattern which the World Bank will probably follow; that if that pattern is not changed now it is very doubtful whether the World Bank will foster the change from governmental to private trading.

Mr. Richards approved the attitude toward export control recently expressed by the Commerce and Industry Association, that is with control limited to those products certified in short control. A ballot of those present showed a 50% approval of this stand. Another poll indicated overwhelming approval of the British loan. The subject was raised by Mr. Swingle, who concisely pointed out that the advantages to world trade and opening up of the American section of world trade had not been adequately recognized. The British loan, he said, is an integral part of the $18,000,000 credit program; Mr. Ward, in agreeing with him, said that neither the World Bank and Fund nor the Export Bank program could function successfully without it.

Other subjects to come up for discussion were reciprocal trade agreements, credit and sales terms, exchange guaranties and export credit insurance.

Carl D. Smith Addresses South Bend Association

South Bend: The speaker of the March meeting of the South Bend Association of Credit Men was Dr. Carl D. Smith. Dr. Smith, who is the Director of Education of the NACM, was formerly president of the Babson Institute of Business Administration. He spoke at a dinner, held in the Bronzewood Room of the Hotel La Salle, and his subject was: "The outlook for the balance of 1946."

Dr. Smith will address the Cleveland Association at its annual meeting in the Cleveland Hotel on May 8th.

Manufacturing Plant To Provide Income For New York Univ.

The Ramsey Accessories Manufacturing Corp. of St. Louis, piston ring maker, has been sold for $3 million to a group of prominent alumni and others interested in New York University's schools of law and medicine, according to the Wall Street Journal. They made a down payment of 30 per cent, the remaining balance to be paid out of profits, though a large portion of the profits will provide an annual income for the two schools. The full purchase price will be paid up in 20 years.

Several other colleges have bought or been given interests in businesses which will give them a higher yield than those offered by high grade securities. The income to the schools is made even higher, inasmuch as schools and colleges, being non-profit-making institutions, usually are tax-exempt.

LETTERS TO THE EDITOR

Reader Questions Tax Article in February Issue

Credit and Financial Management Magazine,
National Association of Credit Men,
Chestnut at 56th Streets,
Philadelphia 39, Pa.

Gentlemen:

I cannot agree with the opinions expressed by L. F. Hufnagel, C. P. A. of Main and Company, in the article "How Taxes Affect Partnerships," which appeared in the February, 1946, issue of your magazine. The inclusion in the balance sheets of business enterprises of tax and other personal liabilities of partners and individual proprietors, which may require substantial withdrawals, appears to be an unnecessary and unwarranted extension of auditing and accounting procedures.

An accountant, in making an examination, is concerned with the particular business enterprise involved. If the accountant was charged with the responsibility of determining the tax and other personal liabilities of the principal partners or individual proprietors, the audit would resolve itself into an examination of the personal financial condition of the parties concerned, rather than of the business organization involved, which is the actual intent of the audit. It may then be argued, if you follow through on the author's line of reasoning, that the accountant should investigate any contingency that may arise in the personal as well as in the business life of the principal parties. Thus, if a divorce action is in litigation against one of the partners, where a large cash settlement may be involved, it would be necessary for an accountant to determine if the cash settlement could be made from other assets of the partner or whether it would require a large withdrawal from the business. This determination could only be made by a complete examination of the assets of the partner involved. The same situation would be true in the case of a large personal tax liability, for unless there was a complete examination of the partner's personal assets, it would not be possible to determine if a withdrawal from the partnership would be necessary.

There are some closely-held corporations which operate in a manner similar to partnerships. Does the author contend that it is the responsibility of the accountant to include in the balance sheet, future possible withdrawals of majority or principal stockholders of these corporations? If not, why is the line

drawn so as to stop at the partnership type of business organization?

I will agree that if large withdrawals are actually made subsequent to the balance sheet date, but prior to the audit date, which would substantially change the financial position of the company, that a note be appended to the balance sheet disclosing this fact.

I am a firm believer in full and fair disclosure in all financial statements, but I believe that an accountant has certain fixed responsibilities when he certifies to the financial condition of the business organization. In certifying to a partnership balance sheet, it is implied that only assets and liabilities of the partnership are included, for that is the normal scope of the audit. As a general rule, credit men understand this, and if they desire more information they consult the personal histories and reports from credit agencies that they have in their files. Using this information to supplement the certified financial statements credit executives should be able to make the necessary decisions.

Very truly yours,
Irwin Katz, Controller,
Motive Parts Company, Inc.

New York Times Census Is Exhaustive Information Source for Business

New York: The *New York Times* has recently made a 1945 census of the New York market. The consumer markets have changed greatly in the years since the latest Federal census in 1940, and the resumption of large scale distribution of goods at this time makes such information really vital to business, says the New York public library in its monthly pamphlet.

New York City has 231,914 more families than in 1940, a gain of 11.3%, and that many more shoppers are going to retail stores. However, there are 3,617 *fewer* grocery stores in the City, a fact which would explain the long waits shoppers have to endure to get food.

According to the 1940 census, the available dwelling units were only 92.1% occupied, but in June, 1945, they were occupied to the extent of 99.7%! Moreover, although 87,987 new units were erected from 1940 to 1945, in the same period 16,394 units were demolished.

Blueprint For Sales, as the *Times* census is titled, is a large folio volume of

(*Continued on page* 30)

Banks As Credit Sources

(*Continued from page* 6)

reference. In present practice the credit man might get this information in some responses and not get it in others for failure of the banks to follow standard procedure. Of course, it seems too much to expect that a bank will give adverse character references when these are known by reason of the possibility of a leak. For that their caution is prudent. However, such leaks would be remote when the inquiry comes, as it frequently does, from out of town.

Banks' Policies Differ

Four inquiries were refused information on the grounds that the data was confidential. Inasmuch as these banks must have known, or could have inferred from the mere fact of being addressed, that the inquiries were made with the permission of the accounts this lack of cooperation is difficult to understand. One branch bank in the data has a policy of only giving oral replies, differing from other branches of the same institution. As mentioned, this may be a good rule when the inquirer and the bank are in the same town. It would help assure against the danger of tracing leaks in confidential information, the thing feared by bank credit men and the inhibiting cause affecting the distribution of credit information. But this device would only be of practical use if a bank were to speak quite frankly of a poor risk instead of merely refraining from saying anything not favorable; or positively recommending an account whose credit is good. Otherwise, the bank is really telling nothing which is confidential to the legitimate credit man who had been referred to the bank by the account to get information. There really should be no need for guessing games in commerce.

Incidentally, two small banks referred the inquiries to their accounts who thereupon confirmed their own credit statements. Needless to say, there was emphasis in those confirmations.

Table I

Subject Comments by Banks Showing Frequencies of Explicit and Implicit

Indications of Borrowing.

Paraphrased Explicit Comments	
"Account borrows."	**3**
"Account borrows. Secured."	**6**
"Account borrows. Non-secured."	**2**
	10
Paraphrased Implicit Comments	
"Bank has statement."	**22**
"Bank considers capital of account sufficient for credit purposes."	**57**
	79

Table II

Subject Comments by Banks Showing Frequencies of Explicit and Implicit

Indications of Non-borrowing

Paraphrased Explicit Comment	
"Account does not borrow."	**25**
Paraphrased Implicit Comment	
"Bank has no statement."	**47**

Figure 1

Suggested Check List For Use As Standard By Banks to Answer Credit Information Requests.

State: **(All items to be commented on).**

1—Account has borrowed .....

Secured .... **Non-secured** ...

Dates of Loans: ....

Amount of Loans ....

2—Account does not borrow. ..

3—Bank has statement. Yes ....

Date ...... **No** ......

4—Average Balance ....
Date of Opening Account

....

5—Character Reference ......

6—Other Remarks ....

Nebraska Jurist Ponders Plea for Non-Par Ruling

Testimony was taken on March 12 and 13 before District Judge Harry D. Landis, at Wahoo, Neb., on the action of Emil Placek, president of the State Bank of Prague, who by his suit action is trying to prevent operation of Nebraska's Par Check Law passed in 1945 which provides in substance that all checks must be cleared at par.

The action was brought to enjoin Saunders County Attorney from prosecuting the Prague Bank for alleged violations of the law. The Leshara State Bank of Leshara, Neb., entered the suit as an intervenor for Mr. Placek.

The testimony was completed on Wednesday, and on Thursday, March 14, arguments were presented and briefs filed, after which Judge Landis stated he would take the case under advisement and indicated it would be several weeks before he would make a ruling and give a decision.

N. Y. Times Census

(*Continued from page* 29)

54 pages showing the location of each large chain and independent grocery store, statistics on grocery stores, drug stores and liquor stores and the families in the neighborhood, and the situation for business as to possible markets in all sections of New York.

Billings: A. A. D. Rahn, Jr., Midland Implement Co., has been elected President of the Montana-Wyoming Association of Credit Men. W. A. Combs, Jr., Ryan Grocery, was named Vice-President. Seven new Directors also were elected.

"How to Conduct a Meeting" Is Chicago Study Subject

"How to Conduct a Meeting" was the general subject of a course conducted by E. Pattison Kline of Chicago under the direction of the Educational Committee of the Chicago Association of Credit Men of which George E. Hedman, Kester Solder Company, is chairman. The class meets on successive Monday evenings.

Consumer Instalment Loans Soar in New England States

Boston: There has been a marked upward trend in the number of new instalment credit loans made by banks in the First Federal Reserve District since mid-1944. This trend, which is based on the records of 27 representative banks, has been similar to that obtaining throughout the United States, although the percentage gains and losses from year to year have not been quite as marked in most cases.

In 1944 personal instalment cash loans accounted for 44 per cent of the annual loans. It is quite possible that borrowing to meet current payments on higher individual income taxes accounts for at least part of the increasing importance of personal instalment cash loans in relation to total loans made. For instance, in 1943 and 1944, this type of loan in the first three months exceeded the total for the remaining nine months of the respective years. Another factor in the increase of personal instalment cash loans is the increasing importance which the banks themselves place on this sort of business.

Instalment credit loans made for repair and modernization of property increased also during the war years from the point of view of both dollar volume and percentage of total. In the last 11 months of 1942, new loans of this type amounted to $2,800,000, or 8 per cent of all instalment credit loans made. This amount increased to $3,000,000 or 11 per cent in 1943, $3,800,000 or 12 per cent in 1944 and $5,300,000 or 14 per cent in 1945. Restrictions on new building and shortages in construction materials made repair and modernization of existing properties almost the only alternative to new building in the face of depreciation and obsolescence. Likewise, the shortage of residence housing gave rise to many conversions and improvements for rental purposes.

U. of Wisc. Extension Gives Course in Advanced Credits

Milwaukee: A course in Advanced Credits (Problems of Credit Management) started on January 30th at the University of Wisconsin Extension. This course is being sponsored by the Milwaukee Association of Credit Men and the National Institute of Credit. It is one of the required courses for the senior award of the Institute. O. H. Berryman, Credit Manager and Assistant Secretary-Treasurer of the John Pritzlaff Hardware Company is the instructor. This course in Advanced Credits is only offered every two years so the enrollment for the present class has been exceptionally heavy.

Banker Heads Cleveland Credit Committee to Aid Vets on Business Plans

Cleveland: H. E. J. Smith, Federal Reserve Bank of Cleveland, is Chairman of the special committee of the Cleveland Association of Credit Men, which will serve as business advisors to discharged servicemen contemplating entering business. The committee is composed of fifty men now engaged in different lines of trade, but it is backed by the entire organization of financial and credit men of the community. Arrangements have been completed whereby the Cleveland office of the Veterans Administration will refer any inquiring veterans to the Credit Men's Committee for advice on plans preliminary to entering business for themselves.

NACM NEWS

About Credit Leaders **Association Activities**

George Johnstone Ends Long Career In Credit Work

Chicago: George H. Johnstone, assistant treasurer and general credit manager of Armour and Company, Chicago, is retiring April 5 after 43 years of continuous service in the credit department of the company. Arthur L. Jones, who has been assistant credit manager, becomes general credit manager.

Mr. Johnstone began his business career in Chicago in 1898, when as a boy he entered the employ of Franklin MacVeagh and Company. He had not been with the company long before he was appointed to a position in the credit department and has been in that work ever since. He remained with the Franklin MacVeagh Company five years when he applied for and was given a position with Armour and Company. The credit department at that time was in the old building, and later it was transferred to the 31st Street building, and then to the general office building.

In 1918, Mr. Johnstone was appointed assistant general credit manager and in 1923 he succeeded Frank Rock as general credit manager. Twelve years ago he was appointed assistant treasurer and general credit manager.

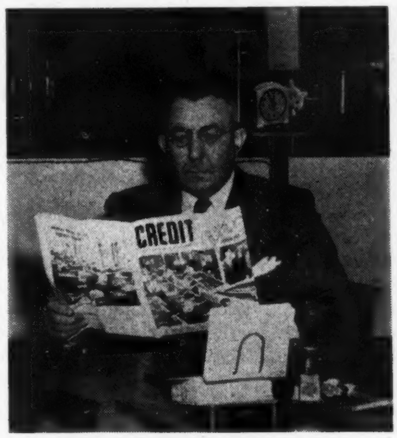
Watched Firm Grow

During his 43 years of service with Armour and Company, Mr. Johnstone has seen the institution grow to its present commanding position in the packing industry with 30 divisions in the United States and large interests in all parts of the world. More than 200 are employed in the credit department alone.

Mr. Johnstone plans to divide his time between the South Shore Country Club in Chicago and his summer home in Lake Beulah, Wisconsin.

Armour and Company were among the founders of the Chicago Association of Credit Men in November, 1896, and R. H. Gano represented the company at the first meeting. During these 50 years the company has maintained continuous membership in both the Chicago Association of Credit Men and the National Association. Mr. Jones is a member of the Board of Directors. Mr. Johnstone has been active in Association affairs, having served on the board of directors from 1925 to 1929.

CREDIT Is Found In All The Best Places!



The picture above shows Harry H. Snyder, Credit Manager of the American Chain & Cable Company of Bridgeport, and President of the Bridgeport Association of Credit Men. Mr. Snyder knows that a short time devoted to CREDIT is well spent time indeed. You, too, will find that CREDIT has something every month for you, something which you would not find in any other publication.

Milwaukee Group Hears Methods of Acquiring More South American Trade

Milwaukee: Mr. Ralph Colorado, of the Hitchcock Publishing Company, Chicago, addressed the Milwaukee Association of Credit Men at its March meeting. Mr. Colorado has recently returned from a trip through Chile, Argentina, Uruguay and Brazil, during which he talked to a large number of dealers' manufacturers' representatives, importers and business men in general. He also called on a number of government officers.

In his talk, to which he gave the title "Added sales for South America," he gave his views on the changes between South America today and eight years ago. He related actual facts of progress in South American trade now being made by the countries of Europe, and suggested markets for United States goods and exchange of materials.

New Orleans Men Celebrate Their Golden Jubilee

New Orleans: A galaxy of business talent was on hand, March 28, to help the New Orleans Credit Men's Association celebrate its golden anniversary, at a banquet held at the Jung Hotel.

Past President Edward Pillsbury was toastmaster, and among the speakers were National President Robert L. Simpson, J. Henry Warner, President of the New Orleans Association, and Henry H. Heimann, National Executive Manager. Miss Mary V. Molony led an octet of mixed voices in a program of music of the deep south, including, of course, many of the better-known and well-loved songs of Stephen Foster.

New Orleans is one of the oldest credit men's groups in the country, and has contributed largely to the prestige of the credit profession.

RI Urges Greater Care In Extending Credit

Providence: The Rhode Island Association of Credit Men held an interesting meeting on March 20, which consisted of a series of 5-minute talks by members. The subjects raised were quite diverse, and included proposals for meeting postwar business conditions. Special emphasis was laid on the necessity of greater stringency in extending credit and the thorough review and revision of credit ratings. Also discussed were the importance of advertising, packaging and diversification of customer outlets.

Speakers were: James M. Goldrick of the Pittsburgh Plate Glass Co.; John W. Moodie of Ballou, Johnson & Nichols Co.; Miss Rose A. Savage of the Foxon Co.; Carleton I. Fisher of G. L. & H. J. Gross, Inc.; Joseph Jacobson of the Industrial Trust Co.; Leonard E. Johnson of Gladdings, Inc.; William H. Hull of Victor Ring Traveler Co.; David E. Rice of Grinnell Co., Inc.; and E. William Lane of American Screw Co.

Emil Doudera, of the American Silk Spinning Co., was chairman of the meeting.

Membership Trophy Race Enters Final Lap

In a bulletin, sent to all Zebra Herds, Les Fishback, Grand Exalted Super Zeb, writes:

"We are entering the final lap of our Membership Trophy Race for the Year, and in order to tabulate and record the the percentage standings of the various teams, I would appreciate your forwarding to me the total accumulated number of Association memberships acquired through direct Zebra effort for the period February 1st, 1945, to March 1st, 1946, by your Local Herd. The final tabulation will be taken at the termination of the Membership campaign, namely April 30th.

"The trophy Cup will then be engraved with the winner's name and be delivered personally by me later this Spring or early Summer at a date in accord with the wishes of the Herd receiving the Award."

Zebras Retain Lead In Bowling League

Pittsburgh: In the Western Pennsylvania Association's bowling league Zebras again took three games and retained their lead. Of course, Joe Meyer's total of 500 pins for the evening helped considerably. Credo also took three from Institute, while Groups cannot seem to pull out of their slump.

Team Standings

	Won	Lost
1. Zebras	39	27
2. Credo	36	30
3. Institute	30	36
4. Groups	27	39

Toledo Zebras Nominate Candidates for Offices

Toledo: The Branding Committee appointed by Exalted Super Zeb Joe Livi met on March 18 and selected candidates for offices, subject to election at the Annual Round-up to be held later.

The candidates for offices are as follows: for Exalted Superzeb—Carl Bruns, Page Dairy Company; Most Noble Zeb--John Taylor, Surface Combustion Corp.; Royal Striper—Nerb Laskey, Hixon Peterson Lumber Company; Three horse power Burro—Sam Eichman, Harbauer Company; Keeper of the Zoo—Art Johnson, Gross Photo Supply and for Zebratary—O. E. Johnson, Toledo Association of Credit Men.

Wichita Entertains Conference

The Kansas City Delegation With Its Chartered TWA Plane About To Take Off For Wichita.

Wichita: The Tri-State Credit Conference, comprising Credit Associations from Kansas, Oklahoma and Missouri, was held at the Lassen Hotel, Wichita, on Friday and Saturday, March 22 and 23. The Wichita Association was host and the sponsors were the Kansas City, St. Louis, Oklahoma and St. Joseph Associations.

The morning session on Friday featured two main speakers: E. N. Ronnau, National Director for the sixth district, who spoke on the subject: "Where are we today?" and Victor C. Eggerding of St. Louis on "A new dimension of Credit-Public Relations.

The main address of the afternoon was that of Hurshel E. Underhill, business economist for the U. S. Department of Agriculture, who chose for his subject: "International Money and Banking." At the evening banquet Waldo B. Burnett, Director, University of Wichita Foundation of Industrial Research, spoke on the timely topic: "Scientific Research—Our Future." The morning session was devoted entirely to Group meetings, following which the conference assembled for a final luncheon, at which the speakers were Miss Annie Porter, of Santa Fe and E. B. Moran of Chicago.

Papermen Choose Executive Committee

Chicago: At the business session of the Mid-Winter Conference of the National Paper Packaging Credit Group of the National Association of Credit Men, held at the La Salle Hotel, Chicago, Thursday, March 21, C. D. Rossiter, Marathon Corp., Menasha, Wisconsin; V. S. Ames, Kimberly-Clark Corporation, Neenah, Wisconsin, and G. J. Christiansen, Hummel and Downing Company, Milwaukee, were elected to the Executive Committee for the coming year and at the meeting of that Committee, Mr. Rossiter was elected Chairman of the Group. James S. Cox, Secretary-Manager of the Chicago Association of Credit Men was chosen Secretary.

M. W. Mallin, Milprint, Inc., Milwaukee, Chairman of the Group, presided at the opening session. At the morning session David R. Pershing, Dixie Cup Company, Chicago, spoke on "Psychology and the Credit Executive." Major Fredric G. Suhr, who recently returned from service with the U. S. Army as liaison officer with the training and combat troops of the Chinese Army spoke at the noon luncheon on, "My Impressions of China."

At the afternoon session, H. T. Riedeman, City National Bank & Trust Co. of Chicago spoke on, "Customer Bank Credit Relations."

Housing Situation Forces Boston Group To Find New Home

Boston: 38 Chauncy St., Boston, was purchased on March 1 by the Blue Cross organization. This address was the home of the Boston Association, and they and forty other tenants were given notices to vacate. Office space, it seems, is not as impossible to find as an apartment (Has anyone an apartment to rent in New York, by the way?), for they quickly found new quarters in the Old South Building at 294 Washington St., and on April 1 they were doing business at the new stand, and finding the new layout more efficient.

North Central Credit Conference Discusses Par Bank Legislation

Minneapolis: Six hundred credit men from Minnesota, Wisconsin and the Dakotas met at the Radisson Hotel, Minneapolis on the 15th and 16th of March for the 30th annual North Central Credit conference. Principal speaker was Henry H. Heimann, Executive Manager of the NACM; the main problems discussed were the insecure future of credit, low priced money and the slow shift to universal par clearance of checks.

Mr. Heimann felt that conditions today were unhealthy, with an abnormally high stock market, a growing tendency to gamble, low returns for loans on capital investment and a generally unstable credit base. The low price of money was blamed for the increase of capital investment gambling.

Among other speakers was Dr. O. B. Jesness, chief of the Division of Agricultural Economics, University of Minnesota on the problems of agriculture. Sanders Genis, manager of Twin Cities Board, Amalgamated Clothing Workers of America, spoke on the attitude of labor, and the employers' viewpoint was expounded by O. F. Christenson, executive vice president, Minnesota Employers' Association.

Harold Swenson, member of the Association's legislative committee, reporting on the progress of the par clearance drive, stated that legislation seemed to be the only way to attain their object, although the passage of such legislation would be a difficult process.

During the conference the following members were elected to office: President—E. C. Vorlander, Minneapolis-Honeywell Regulator Co.; Vice-President—Harold Dabold, Armour and Co.; Secretary — Brace Bennitt, executive secretary, Minneapolis Association of Credit Men.

Alabama Organizes Credit Study Group

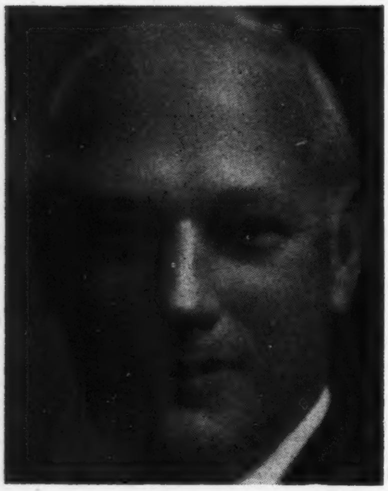
Birmingham: The Alabama Association of Credit Men has organized a study group which meets every Tuesday for a two hour session. They have secured the services of an attorney, who, using the Credit Manual of Commercial Law as a text, lectures for one hour; the other hour is occupied by discussion, questions and comments.

Most of those attending are from the heavier industries but all are interested in the Law of Contracts, etc., according to a letter from W. C. Darby, Secretary-Manager. The driving forces behind this movement are D. C. Denney, Connors Steel Co., R. E. Bates, The Ingalls Iron Works, and M. E. Wiggins, Alabama Power Co.

BOSTON
Laurence S. Day
Credit Manager
W. F. SCHRAFFT & SONS, CORP.

YOUNGSTOWN
T. A. Johnson
Ass't Credit Manager
YOUNGSTOWN SHEET & TUBE CO.

WICHITA
B. R. Rickard
Credit Manager
FRED DOLD & SONS PACKING CO.



TAMPA
E. J. Keefe
President
BRYAN-KEEFE & CO.

Association

"A city that is set on an hill cannot be hid." It has been said that these words from the New Testament were the first reference in history to advertising. They could also very aptly be used about our Association Presidents, for they are men in the public eye, and as such unable to hide their light under a bushel even if they wished to do so.

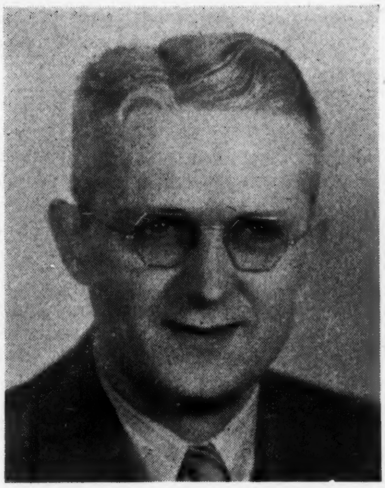
A President's job is no sinecure; it carries with it much responsibility and a still greater amount of giving. It is always true that the man who has one hundred things to do always has time for one more, but

GREEN BAY
Gordon L. Ware
Treasurer
STRAUBEL PAPER COMPANY

WATERLOO
Edwin A. Zilmer
Credit Manager
THE HINSON MFG. CO.

PARKERSBURG-MARIETTA
J. M. Danielson
Credit Manager
THE STRECKER BROS. CO.

PROVIDENCE
Sydney J. Hoffman
Secretary
FRANKLIN AUTO SUPPLY COMPANY



TOLEDO
John G. Ketteman
Credit Manager
KUHLMAN BUILDERS SUPPLY & BRICK CO.

ROCHESTER
Elmer Weiland
Credit Manager
R. T. FRENCH COMPANY

Presidents

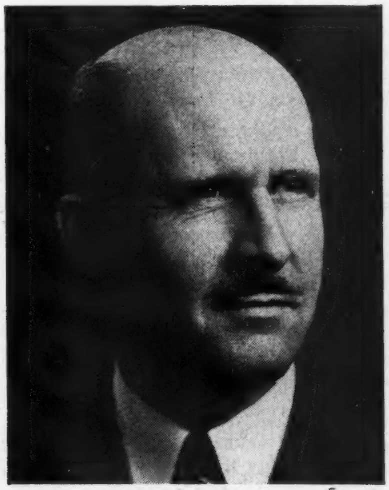
that the man with little to do never has time for anything. These faces you see are the faces of men who are never too busy to add another burden to their load, to take on one more job to occupy their sharply tapering leisure time.

So, salute these gentlemen who do so much for their Association; and remember the old advice given by a father to his son: "Be a good boy, work eight hours a day and have no worry; and some day you will be president of the company, work sixteen hours a day and have all the worry."

LINCOLN
P. W. McDermand
Auditor
THE CRETE MILLS

CHARLOTTE
D. F. Caldwell
District Credit Manager
FIRESTONE TIRE & RUBBER CO.

KALAMAZOO
L. J. Wetherbee
Cashier
FIRST NATIONAL BANK & TRUST CO.



JACKSONVILLE
James E. Horne
Vice President
FARQUHAR MACHINERY COMPANY

Tampa President Has Served for Eighteen Years

The Tampa Association of Credit Men is justly proud of the man who has been its president for the last eighteen years and has given unstintedly of his time and talents in the service of his fellow members. E. J. Keefe, because of his knowledge of, and experience in, important business affairs, together with the fact that he is highly esteemed by the entire membership and the wholesalers of the city generally, has added to the prestige of the Association and contributed in no small degree to the enviable reputation which the Tampa Association of Credit Men enjoys in this locality.

E. J. Keefe was born in Jacksonville, Florida, in 1882. When he was about fifteen, he went to work for R. G. Dun & Company at the Jacksonville office, and continued with them until he left Jacksonville to come to Tampa in 1903. In that year he entered the employ of Snow & Bryan Wholesale Grocery Company as Credit Man, gradually working his way up until he became general manager. In 1927 he purchased the entire interest of Snow & Bryan and continued the business as Bryan-Keefe & Company. He was always active in Association matters and a booster for Credit Interchange. In 1921 he was elected a director of the Association and has continued to serve as director and president up to this time. At the last Annual Meeting of the Association, held on February 19, 1946, at the Bayshore Royal Hotel, Tampa, Florida, a motion was made by Frank M. Cooper, seconded by H. H. Root, Sr., both Charter members of the Association, that Mr. Keefe be elected as president for life, and same was unanimously carried. Mr. Keefe was absent from the room at the time.

He is also president of the Southwest Florida Wholesale Grocers' Association, an organization composed of all wholesale grocers of the entire Tampa trading territory.

Mr. Keefe is a 33rd degree Scottish Rite Mason, a member of the Justers, a past Potentate of Egypt Temple Shrine; he is also actively interested in any movement for the betterment of civic conditions.

A man, very hoarse with cold, and not able to speak above a whisper, knocked at a doctor's home one night and the doctor's wife came to the door. "Is the doctor at home?"

"No," answered the wife, also in a whisper, "come in."

News of the Credit Women's Clubs

Denver: The Credit Women's Club of Denver held its March meeting on the 11th, in order that the members might attend the joint meeting on the 19th when Mr. Heimann was in Denver.

Miss Wilma Lundy, a guest singer, entertained with several delightful songs, after which the election and installation of officers for the coming year were held. The new officers are: President—Garnet Davis, General Electric Supply; Vice-President—Lois Ryman, B. K. Sween Electrical Co.; Secretary—Norine Nylander, H. H. Tammen Co.; Treasurer—Margaret Flaherty, General Motors Accep. Corp.

Oakland: The Oakland group of Credit Women continues to progress, and are proud to announce that Mrs. Ellen Anderson of Shields-Harper has been appointed to serve on the Board of Directors of the Wholesalers' Credit Association of Oakland. Mrs. Anderson is the first woman in the Oakland area to hold this position.

The Oakland group has enjoyed an active and constructive year. Meetings, held the third Monday in each month have been educational as well as social and the welfare fund, educational fund and general fund are quite substantial for a club only a little more than a year old.

Boston: Mrs. Lillian M. Ripley, credit manager of Petroleum Heat and Power Co., was elected president of the Credit Women's Club of Boston at its annual meeting and birthday party at the Pioneer Hotel.

Other officers elected included Edith Leonard of Colonial Beacon Oil Co., vice-president; Catherine F. Lane of Hawkins Lumber Co., treasurer and Reggia DeForge of Schlitz Distributing Co., secretary.

The principal speakers were Richard H. Davis, credit manager of General Electric Supply Co., and Arthur Duggan, secretary of the Boston Credit Men's Association. Mary E. P. Curran, assistant treasurer of Jones, McDuffee Stratton and first president of the club, presented the retiring president, Marie A. Scampini, office manager of Brown-Wales Co., with a handsome gift of silver jewelry. Miss Scampini remembered all present with corsages, favors and membership rosters printed for the occasion. A huge birthday cake was the gift of Catherine Murphy of Brown-Wales Co.

New York: The New York Credit Women's Group held its March meeting at the Hotel Shelton. The speaker was Dr. J. S. Klein, of Klein, Hinds and Finke. Dr. Klein is a recognized expert on taxes and gave an immensely interesting insight into the vagaries of tax laws. Incidentally his talk appears in full in another part of this issue. The remaining part of the evening was devoted to nomination of officers, all of whom have been nominated for re-election.

The April meeting at the Sheraton Hotel was highlighted by an address by Miss Arretta Lynch Watts, of the Public Relations Department of the Dupont Company, on the subject: "How chemistry is meeting our needs today."

Milwaukee: At the regular monthly meeting of the Wholesale Credit Women's Club of the Milwaukee Association of Credit Men on Tuesday, March 19, at the Schlitz Brown Bottle, 63 members and guests were in attendance.

The annual election of officers was held with the following results: President—Irene Harris, McKesson-Robbins, Inc.; Vice-President—Hilda Hennig, Socony-Vacuum Oil Co.; Secretary—Lillian Guetzloe, Phoenix Hosiery Co.; Treasurer—Ann Gwin, W. H. Kranz Co. Colored film, community singing and a general spirit of get-together made the evening a thoroughly enjoyable one.

Triple Cities: Mrs. Jean Walker spoke at the March 20 meeting of the Triple Cities Credit Women's Club at the Arlington Hotel. Her subject was "Widening views against a narrowing world."

Mrs. Walker is Personnel Counselor and Public Relations Director at McLeans. She is a Director of the American Women's Association, New York. She attended Helen Hall's School, and prepared for Vassar but circumstances brought about an education abroad. She was associated with and lectured for the Academy and Association of American Poets, and did journalistic work for the Morning Oregonian.

Mrs. Marguerite Kolb was in charge of the meeting.

St. Louis: The feature of the February 28 Meeting was a debate on "Permanent Price Control," presented by young men from Washington University.

The speaker on March 28 was Harold Duffy, sales manager for S. G. Adams Company. Mr. Duffy is President of the Downtown Kiwanis Club, past president of the Sales Managers' Bureau, and lectures on salesmanship at Washington University. He discussed the value of co-operation between the sales and credit departments to promote increased sales and better customer relations.

Bridgeport: At the regular monthly meeting of the Bridgeport Association, held March 13, the speaker was Mr. A. M. Sullivan, Associate Editor of Dun's Review and Advertising Manager of Dun and Bradstreet, Inc. Mr. Sullivan spoke on the subject: "The GI back in business." His talk was very well received and the question period proved very interesting.

Minneapolis: Minneapolis Credit Women met for their March dinner meeting in the Paul Bunyan Room of the Dyckman Hotel. Attorney Theodore Knudson spoke on "Youth—Building for the Future."

A large number of Minneapolis and St. Paul Credit Women attended the North Central Credit Conference at the Radisson Hotel in Minneapolis on March 15 and 16. Miss Blanche Scanlon presided as chairman at the luncheon meeting of the Food and Allied Lines Group on Saturday noon.

Cleveland: The Cleveland Credit Women's Club heard a very interesting talk on "Personalities of Post-war Europe" by Spencer Irwin of the Cleveland *Plain Dealer* at their regular meeting held Tuesday, March 12, at Hotel Statler. Officers and several members of the Cleveland Credit Men's Association were in attendance.

Chicago Makes Annual Nominations for Election

Chicago: The annual election of officers of the Chicago Association of Credit Men will be held Wednesday, April 17 for the fiscal year beginning May 1. The Administration Nominating Committee has presented the following ticket:

President, C. W. Dittmar, Crane Co.

First Vice-President, R. L. Seaman, Star Novelty & Utilities, Inc.

Second Vice-President, A. L. Jones, Armour & Company.

Treasurer, J. E. Walsh, Oscar Mayer & Co.

Board of Directors: (3 years)

A. V. Farr, Illinois Bell Telephone Company.

H. C. Fraunhofer, Revere Electric Supply Company.

L. K. Hitchings, Caspers Tin Plate Company.

K. J. Krause, Cooper's, Inc.

C. W. Marum, Link-Belt Company.

D. R. Pershing, Dixie Cup Company.

H. E. Silverstone, Galler Drug Company.

Board of Directors: (1 year)

M. P. Vore, Jr., Republic Flow Meters Company.

The members of the Administration Nominating Committee were:

C. L. Holman, Wilson Bros., Chairman.

Philip L. Burgett, The Northern Trust Company.

G. H. McClure, Lumbermen's Mutual Casualty Company.

Wm. F. Pretzel, Bunte Brothers.

Allen Selby, Chicago Daily News.

In accordance with the Constitution President C. W. Dittmar appointed the following Members Nominating Committee to receive further nominations:

Emily Davidson, The Chicago Pump Company.

H. E. Butcher, Cities Service Oil Company.

A. P. Christensen, Albert Dickinson Company.

R. C. Sowers, Hart, Schaffner & Marx.

F. E. Stolte, Anaconda Sales Company.

Cleveland Holds Third Educational Forum

Cleveland: The third Educational Forum Program of the Cleveland Association was held March 25 at the Statler Hotel. Two addresses were given on widely differing subjects, one on the selection of competent personnel, by Harold Laidley, of the White Motor Company, the other by Dr. Theodore H. Smith, of Servel, Inc.

In his talk Mr. Laidley gave answers to questions such as: How to improve the method of selecting key personnel; how better to interview applicants with a view to reducing the rate of errors of judgment; and what credit men have found to be the most important qualifications for key personnel. Dr. Smith, in an address entitled "Your ally the sales department," was able to approach the question from an objective viewpoint, since he is not a credit executive. He covered the subject of the relationship of the sales and credit departments, and showed the similarity in interests and objectives of both.

Erie Credit Men Now Going Full Swing

Erie: For its March General meeting the Credit Managers Association of Erie enjoyed a slide film prepared by Standard Oil Company of California entitled, "What would you say?". E. Clyde Snyder, of the Shreve Associates, gave a very interesting discussion on the co-insurance clause in your insurance. Mr. Fred S. Bennett, Director of NACM, the speaker of the evening, addressed the group on "Credit Problems in the Post-War Period." F. Earl Bonnell, Erie Steel Construction Co., is to be complimented on his fine program.

Chicago: Consumer instalment financing was discussed at the regular monthly meeting of the Chicago Association of Credit Men at the LaSalle Hotel, Wednesday evening, March 13.

The speakers were: Owen L. Coon, Chairman of the General Finance Corporation; Kenneth R. Wells, Assistant Vice-President of the American National Bank & Trust Co.; Frank R. Eddy, Vice-President of the Commercial Credit Corporation and Oliver B. Cottle, Vice-President of the Merchandise National Bank.

Western Pennsylvania Closes Civic Series

Pittsburgh: The Credit Association of Western Pennsylvania closed its Civic series with a discussion of diversifying Pittsburgh industry. The speaker, Mark S. James, is well known to Pittsburghers, having been for many years Managing Director of the Pittsburgh Commission for Industrial Expansion. He was also secretary of the Department of Commerce of Pennsylvania from 1938 to 1942, and had a broad background of training for this work. The gist of this talk was that Pittsburgh's world-wide reputation as the Steel City should be broadened so as to have the city known as the Industrial Center of the World.

Final Plans for Business Meeting Are Perfected

At the meeting of the Administrative Council, held in New York during the last week in April, the final plans were laid for the National Business Meeting to be held at French Lick, Indiana, June 24 and 25.

Owing to the extreme scarcity of accommodations at French Lick, it was decided that reservations would have to be restricted to one for each sixty members or fraction of sixty of each organization. For instance a group consisting of 277 members would be able to send five delegates; an organization with 17 members would be able to send one. Thus every Association, large or small, can be represented.

This assigned quota holds till May 15. After that date any accommodations which have not been reserved by Associations to which they have been assigned will be made available to those groups which have requested extra rooms. However, if the number of requests for extra rooms exceeds the number of rooms available, the accommodations will be assigned in accordance with the priority of requests.

It should be noted that this quota for attendance at the Conference has no bearing whatever on the number of votes allotted to each Association by the constitution. The vote strength of each Association will be entirely in accordance with the usual constitutional provisions. Whether or not a group has one member present or ten, the number of votes to which that group is entitled will not vary.

Louisville Has Counsel Program For Ex-Soldiers

Louisville: The Louisville CMA is setting up a free-counsel service for veterans who want to establish their own businesses. Released soldiers all over the country are benefitting in one way or another from the provisions of the "GI Bill of Rights" but without guidance, experience and training and without a careful survey of all the risk involved and without ample resources many will contribute to our business mortality, says Sam Schneider, Secretary.

About one out of every twenty-five men who recently passed through separation centers, Mr. Schneider adds, has expressed the intention of going into business for himself. If this continues, and if war workers invest their savings in new businesses there will be a far greater number of businesses than there were before the war, and, considering the mortality of firms in prewar years, it is an important question for business men to ponder, since the failure of a competitor increases the cost of doing business, directly or indirectly.

Hartford Holds Annual Insurance Meeting

Hartford: The regular monthly meeting of the Hartford Association of Credit Men was held on Wednesday, March 27, at the Wethersfield Country Club. This was the Annual Meeting sponsored by the Insurance Advisory Committee, and as usual they arranged an excellent program.

Mr. Arthur G. Smith, Chief Engineer, the Travelers Fire Insurance Company, spoke on the subject: "Present day values of Plant and Equipment." Also Mr. Kenneth L. McCallum, General Adjuster, the Travelers Fire Insurance Company, addressed the meeting on the subject: "Do you know whether or not you are in the Insurance Business?" As present-day values of Plant and Equipment are very much inflated, the above subjects were certainly timely and important, and the membership found it well worth their while to be present at this meeting.

OPA Administrator Plans Adjustments In Lumber Regulations

Material Men will be interested in the following extracts from a letter just received by the Secretary of the Des Moines ACM from Paul A. Porter, OPA Administrator:

"I note your statements regarding mill work items as well as differentials between the price of timbers and 1-in. boards. Relative to differentials between timbers and boards, I wish to advise that these were set up largely on historic practices prior to price control, although some adjustments were made in order to procure sizes mostly needed for the war effort.

"The terrific demand for housing lumber since V-J Day has rendered historic differentials obsolete and since that time this Office has been working in conjunction with Industry Advisory Committees to make compensatory adjustments in the regulations which would promote the production of building items rather than the larger sizes which were most needed prior to V-J Day.

"This is a very complicated procedure in order that no one class of mills would be penalized by lowering the prices of certain sizes and not be compensated by equalizing increases in other sizes, for the reason that they did not have the necessary machinery and dry kilns to manufacture the items on which the prices were increased.

"However, after much discussion we have issued Amendment 22 to R.M.P.R. 26, covering Douglas Fir, which, we believe, will have the desired effect and we hope to issue a similar amendment covering Western Red Cedar in the near future.

"Adjustments will probably also be made in the prices of Western Pine and Redwood as soon as we are able to discuss proposed changes with the respective Advisory Committees."

New York: Helen Trapp has resigned from the New York Credit Men's Association and retired to private life as Mrs. Julius Wurz, her husband having been recently discharged from the Army after long overseas service.

Miss Trapp was with the Association for about 15 years, 11 of which were spent as secretary to Raymond Hough, executive manager. Her associates gave her a parting gift of silver.

Pittsburgh: The Credit Women's Club of Pittsburgh met on March 27 for what turned out to be a fine meeting. Vice-President Ethel Wangeman presided in the absence of President Hannah Heim, and the following ladies were submitted for election by Alice Nec, Chairman of the Nominating Committee: Hannah Heim, Dravo Corporation—President; Ethel Wangeman, B. K. Elliott Co.—Vice-President; Bernice Zimmerman, Pittsburgh Coke and Chemical Co.—Treasurer.

Mrs. Florence Smith Frazier gave the group a short talk on that most timely topic—"Atomic Energy." Mr. Thomas D. Morris, President of the Pittsburgh Chapter, National Institute of Credit, brought greetings from the Institute. The evening was rounded out when the showing of two films, one of the US Secret Service movie, "Know Your Money" and the other the Standard Oil of California credit-training movie, "What would you say?"